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THE ROUND TABLE

QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

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Great Britain and the Financial Earthquake

The European Problems of the United States

The World and the Crisis

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The General Election—The Pound and Industry

Ireland : Events in the Free State

Canada :

The Maritime Provinces—The Beauharnois Investigation

Australia :

The Struggle towards Financial Rehabilitation—Mr. Lang and New South Wales—Mr. Theodore and the "Mungana" Affair

South Africa :

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New Zealand :

Unemployment—The Budget—Coalition at Last—The Statute of Westminster

DECEMBER

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New Zealand :

The Export Credit Pool—The Economic Committee's Report—The Ottawa Conference—The Special Session

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NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of THE ROUND TABLE in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way THE ROUND TABLE will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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GREAT BRITAIN AND THE FINANCIAL EARTHQUAKE

THE need for the National Government and the justification of its recent appeal to the electorate both lie in the magnitude of the tasks which now face any Government in this country. The nation has shown by its votes its recognition of an overriding emergency. The value of that demonstration is not easily exaggerated, whether at home for its assurance of stability and of a reawakened self-respect, or abroad as a challenge to the prophets of British decadence and a stimulus to governments and peoples caught in the grip of problems not less oppressive than our own. The popular verdict is in no way less striking because it is a vote not for a policy so much as for an attitude of mind. There is, indeed, no evidence that the electorate wished to bind its leaders to any set of detailed measures for meeting the emergency, and the Government is free to approach both the national and international aspects of the crisis with no duty imposed on it except that of showing courage and energy and an unbiased mind.

It may be useful to sketch the conditions in which the new Government will have to work, to indicate the problems which are amenable to its action and those which are not, to suggest reasons for thinking that certain forms of treatment are more likely to be efficacious than others. This may seem a modest objective, unworthy of a crusading age. Yet it involves an investigation, perfunctory perhaps and not professional, into the pathology of those diseases which

Great Britain and the Financial Earthquake

are preying on the world's economic organism, and a study of their effects on our own economic life and of the state of general health in which their attack came upon us. It will be found that national and international problems are in one sense inextricably interwoven and in another sense quite distinct. Our national difficulties may be increased or diminished by action taken abroad with or without our support. On the other hand, there are measures which we in Great Britain, and we alone, can carry through, and which in any conceivable course of international developments can only strengthen our position. Indeed, it may well appear that the extent of our influence on international arrangements must depend largely on the success or failure of our efforts to set our own house in order. For like any individual or institution or State well known to be financially embarrassed, we have lost prestige and our credit is impaired, and in such circumstances no creditor, no disinterested observer even, can be persuaded at all readily to subordinate his suspicions to a reasoned enquiry whether the embarrassment is more than temporary. By common consent the first and paramount objective of the National Government will be to restore the financial credit of Great Britain.

I. THE WORLD BEFORE 1914

THE world to-day is in the grip of an earthquake, and the complex structure of international credit is shaken to its foundations. Just as an earthquake in the physical world has its origin in profound disturbances of the nature of which we have neither complete nor exact knowledge, so too an element of doubt, almost of mystery, surrounds the economic collapse which we are now witnessing. At the best, our analysis must be partial, our judgments approximate; our belief that another policy in this or that particular would have changed the face of the world can be little more than a probable speculation. Yet

The World Before 1914

if the details are blurred, the general outlines are clear. Perhaps the most direct clue to an understanding of the present state of the world can be obtained if we look back to the working of the system of international credit before the war and then turn to consider the conditions in which that system has had to operate during the last ten years.

For three generations before 1914 the world passed through a period of peace and growing prosperity. It is true that peace was not absolute nor prosperity constant or universal. War was always in the background, at intervals it held the scene ; the spectres of financial crisis and economic depression were never exorcised. Yet the effects of war were kept within bounds, and through all variations the curve of prosperity was a rising curve. In spite of every lapse from grace the peoples of the world had laid firm hold on the truth that the foundation of all wealth is the free exchange of goods and services. In laborious days they cultivated the arts of peace. Barriers to international trade were broken down by the elimination of customs frontiers, the decay of private privilege, the improvement of all the means of transport and communication. Tariffs, where they existed, were moderate ; the Chauvinist was slow to stray outside the sphere of politics. The two great creditor nations of those days, Great Britain and France, invested their favourable balances, steadily, methodically, in the newer countries—in their own dominions, in North and South America, in Russia, in the Far East. These investments were for the most part applied to reproductive development—in building the railways of the Argentine or of Russia, in port works throughout the world, in the irrigation of Egypt, in the mines of the Witwatersrand. They were made not by speculators, but by investors, rich and poor, who cast their bread on the waters. By this constant flow of capital to the ends of the earth trade was immensely stimulated and a market created for the products of the great equipment industries, iron and steel and engineering.

Great Britain and the Financial Earthquake

Foreign investment on the scale of the last fifty years would have been impracticable if, on the monetary side, the nineteenth century had not evolved the delicate mechanism of the gold standard. By the device of fixing the value, in terms of gold, of the unit of account in each civilised country, the world contrived to maintain relative stability of the exchanges and approximately similar movement of price levels in all countries adhering to the gold standard. Thus an investor in England or France, placing his money abroad, could assume with reasonable confidence that his investment would not be jeopardised through violent exchange fluctuations between his own currency and that of the country to which he was lending. The practical working of the gold standard became largely automatic. If, at a given moment, the balance of payments as between England and France was unfavourable to the French, if, that is to say, the French demand for sterling was greater than the British demand for francs, the franc tended to depreciate and a point was soon reached at which it became profitable for a Frenchman, instead of selling unwanted francs in the market, to buy gold with them in Paris and ship it to London in settlement of his debt. Any such influx of gold into England tended to raise sterling prices and thus, by stimulating British imports and discouraging British exports, to counteract the exchange movement which had led to the gold shipment. This tendency towards equilibrium was reinforced by the traditional policy of lowering the Bank rate in any centre, and thus repelling short-term investment there, as gold flowed in to that centre, and raising it, with the opposite effect, as gold flowed out. It was an essential feature of these operations that gold shipments were needed only to the extent and for the length of time necessary for them so to modify the relative price levels of the two countries that the balance of payments tended to correct itself.

In those halcyon days before 1914 the gold standard operated successfully and with comparatively small move-

The World Since the War

ments of gold, because London dominated the money markets of the world. By reason of our lead in the development of modern industrial civilisation, by our energy and enterprise, we enjoyed over a long term of years a favourable international balance of payments, and our position grew to be one of immense strength. The technical organisation of the London money market was incomparably better than that of any other centre, and for all these reasons the gold standard was in practice operated by the policy of the Bank of England. The central banks of other gold standard countries followed, as it were naturally and inevitably, the lead of London. This predominance of the London market served no merely selfish national purpose, since it is of the essence of any international standard that by its proper functioning it protects indiscriminately the interests of every country which adheres to it, or by its failure brings disaster to them all.

II. THE WORLD SINCE THE WAR

“The recent world-wide fall in prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena.”—(The Macmillan Committee, June, 1931.)

FROM whatever angle we examine the economic life of the world since the war, the contrast with the years before 1914 is arresting. We are beginning, indeed, to understand that the war turned the world upside down. For twelve years Europe has lived in peace, yet there is perhaps no period in modern history in which the settled mentality of peace has been more conspicuously absent. Europe has, indeed, illustrated the contrast between war and peace of which Hobbes wrote in *Leviathan*: “The

Great Britain and the Financial Earthquake

nature of war consisteth not in actual fighting, but in the known disposition thereto during all the time there is no assurance to the contrary." France and Germany, Germany and Poland, the Succession States of the Austro-Hungarian Empire—all have been divided by the memory of the war and the terms of the peace, by mutual suspicion and national passions. To the historian this may well appear inevitable, to the economist it can only appear destructive of international economic progress. The war, and even more the Peace Treaties, threw into relief the rights of nationality, and it was an easy, if an illogical, transition from the idea of political autonomy to that of economic "autarkeia." How, if it was wrong for Czechs to be governed by Hungarians, could it be right for Czechoslovakia to be dependent on Hungary for any commodity or any manufacture which it could make shift to produce for itself? On such reasoning, confounding justice with expediency, Europe has sought to organise itself into self-contained communities, defended by prohibitions and restrictions of every kind and buttressed by tariff walls, which were never too high to support another course.

The war left other legacies than economic nationalism, and none which has been a more effective instrument of disorganisation than the settlements relating to war debts and reparations. Unlike every other form of international indebtedness, war debts and reparations are an attempt to repay capital which has served no productive purpose, capital which has added nothing to the wealth of the debtor. The service of that capital, therefore, can never be anything but a surcharge on the industry and trade of the nations which have to meet it. Moreover, time has shown that in practice the problem of the transfer of these vast annual sums from debtor to creditor is in the long run insoluble. Payments between nations can be made only by the export of goods or by the shipment of gold, the sale of foreign assets or fresh borrowing on the part of the debtor. The very scale of the war debt payments made it improbable

The World Since the War

that the debtor countries could so increase their exports as to cover the payments in that way, even if their creditors threw open their doors to the import of goods. Since on balance all payments flowed to France and the United States, and since those countries above all others have insulated themselves against all imports by prohibitive tariffs, payments on account of war debts and reparations have in effect been made mainly by vast shipments of gold to France and the United States. On the other hand, Germany has obtained the necessary funds by raising new loans abroad. It would not be untrue to say that Germany was able to meet her reparations debt for just so long as the United States was prepared to re-lend to Germany some of her gold, and that as soon as the springs of American lending dried up, German default became inevitable.

The world's gold stock in the hands of governments and central banks and the proportions of that stock held by the United Kingdom, the United States and France in 1920, 1926 and August 1931, were these (figures in millions of pounds):—

	1920	1926	August 1931
World stock	1488	1893	2323
Holdings in United Kingdom	155	150	133
Holdings in U.S.A. ..	504	840	953
Holdings in France ..	141	146	472

The explanation of these figures is that the movements of gold resulting directly from the war, or the settlements made after the war, were different in kind from those to which the world was accustomed under the normal pre-war operation of the gold standard. The control of the monetary policy of the world passed from the Bank of England and became dependent on international co-operation in conditions which made effective co-operation almost impracticable. What were conceived to be national interests came into greater prominence, and for many and

* Taken from the Federal Reserve Bulletins. Gold in circulation is excluded, recent figures for the whole world not being available.

Great Britain and the Financial Earthquake

different reasons an influx of gold was not consistently treated as between France and the United States, or as between one period and another. From 1922 onwards the gold accumulated in the United States formed the basis of a vast inflation of credit which led through the speculative boom to the collapse of 1929. Between 1922 and 1929 the United States lent abroad more than £1,800 million and thereby diminished the danger to the world of her gold holdings. But foreign lending never became a settled habit of the American investor ; even in the heyday of bond issues, a substantial proportion found no permanent home until it came to rest in Europe ; and as the prospect was unfolded of apparently illimitable industrial prosperity at home, lending abroad ceased almost as abruptly as it had begun. Since 1929 restriction of credit and falling prices in America have coincided with a rise in the monetary gold stock* from £890 million to its peak of £1,027 million in August last. In other words, gold has merely been buried in the vaults of the banks, and has shared the fate of those other millions immured beneath the Bank of France. France has accumulated gold steadily since 1926. The stabilisation of the franc at a level lower than its internal value created a premium on exports and a large favourable balance of trade, and as the Bank of France is debarred by law from issuing further notes except against gold in its own vaults, the increased demand for currency subsequent to stabilisation led to the repatriation of French balances and to a consequent inflow of gold. The relief from foreign lending was negligible. His political prejudices and the loss of his Russian holdings confirmed the national caution of the French investor, and except for loans made within the last twelve months, primarily for political reasons, to members of the Little Entente, the savings of the French people have remained in France or have been placed abroad at short term.

* I.e., gold held by the U.S. Treasury, the Federal Reserve Banks and Agents and gold in circulation.

The World Since the War

This sketch of the characteristic features of post-war economics would not be complete without some reference to the technical revolution which has taken place in the methods both of industrial and agricultural production. Mass production owes its main impetus to the war and it has changed the face of the world by creating new needs for ever-widening circles of the population. Yet it clearly carries with it a fatal facility in production. It is a mixed blessing to be the owner, let us say, of the most modern and efficient cigarette factory in Greece, if the test of its efficiency is that it can produce more cigarettes in a day than the country consumes. The consequences of over-production are even more serious in agriculture than in industry, since the demand for agricultural products is in its nature less elastic, less responsive to lower prices than that for manufactured goods. A reduction in the price of motor cars may enable any one of us to buy a new car every year instead of every other year, but even if wheat were given away we should hesitate to eat twice as much bread. The effects of the American inflation have nowhere been more disastrous than amongst producers of primary commodities. As by far the biggest consumer of such commodities, the United States by her prosperity immensely stimulated their production, and the stimulus was fortified by the flow of American capital during the brief and not very discriminating excursion of the United States into foreign lending. With the end of the American boom came the end also of American finance, and the unhappy primary producer finds himself with his market ruined and his debt intact.

Great Britain and the Financial Earthquake

III. THE CRISIS OF TO-DAY

IT is not difficult from these premises to trace the collapse of the international credit structure. Once the bubble of speculation in the United States was pricked, the rest followed naturally and *accelerando*. In the autumn of 1929 Americans gave public expression through the stock markets to their doubts whether American industry could continue indefinitely to expand, and from that moment industrial production in the United States, which had already passed its peak, declined precipitately. Commodity prices kept step with it, and the world soon realised that its stocks of, and its capacity for producing, wheat and rubber, cotton and copper, coffee and tin, far outstripped any power of consumption hitherto known. And so the decline in commodity prices became a catastrophic fall, and was followed, at a distance, by a fall in the prices of manufactured goods, due both to the lower costs of raw materials and to the restricted demand amongst primary producers.

Perhaps the most important consequence of any violent drop in world prices is the corresponding increase in the real burden of all indebtedness, whether internal or international. War debts, reparation payments and commercial debts between nations have become intolerably onerous during the last two years. President Hoover's moratorium proposal was a courageous recognition of that fact, but it came too late and was received by France in too carping a spirit for it to prevent or even delay the natural course of events. Debtor countries everywhere have lapsed into default. They have begun to feel with Rabelais that "it is a divine thing to lend: to owe, an heroic virtue." In Europe, as in 1914, so in 1931, the spark was fired in Austria. The collapse of the Credit Anstalt was the first real indication that the organism of international

The Crisis of To-day

banking was infected. The German crisis followed immediately and destroyed the last vestige of confidence by revealing to the world the instability of the structure erected in central Europe on borrowed money. Financial panic follows the lines of least resistance, and there were many good reasons why in the universal disorder the pound sterling should have been next singled out for attack. It was well known that we were heavily involved in central Europe, that our budgetary position was unsound and that our balance of payments was unfavourable.* Once the world ceased to trust it, sterling was doomed. The technical weakness of our position made its defence a forlorn hope. For a variety of reasons short-term holdings in London on foreign account had increased since the war and in March of this year amounted to over £400 million ; there had been no corresponding increase in our liquid foreign assets, and if we regard the London market as a vast deposit bank, its position was unsound in so far as it was powerless to resist a run by its depositors.

A loss of confidence, in the realm of finance, knows no frontiers and is not amenable to reason. If it exists, it penetrates like some foul gas into every nook and crevice of the financial structure. Having sold sterling off the gold standard, the world began to sell dollars. Since the beginning of September gold has been withdrawn from the Federal Reserve system of the United States or earmarked there on foreign account to the amount of \$692 million. Both in America and in France, mistrust of banks and the banking system has led to the hoarding of currency on a large scale. Wisdom suggests that the end is not yet.

There can be no better illustration of the varied financial problems which confront the world to-day than a brief sketch of the situation in the three contrasted countries of Germany, Hungary and Brazil—the first a great industrial nation which circumstances have turned into a debtor

* Tables showing the balance of international payments of the United Kingdom and of the U.S.A. will be found in an appendix.

Great Britain and the Financial Earthquake
 country, the second an artificial product of the war, and the third representative of that new world of vast resources only partially developed.

Of the political and spiritual adventures of the German nation during its wanderings in the desert since 1918, another article* in this number of **THE ROUND TABLE** will speak. Its financial history during that period has been dominated by the devaluation of the old mark and the pressure of reparation payments. Inflation and the destruction of the currency left Germany without capital and without the will to accumulate it. German public authorities and German industry have lived since 1923 primarily on borrowed money, and like everyone else who lives on borrowed money, have not always spent it wisely. It has constituted their working capital and the source from which capital improvements have been carried out. It has also provided the foreign exchange necessary for reparation payments. The figures are no longer open to serious dispute. The Committee of Bankers which met at Basle in August of this year found that between 1924 and 1930 there was a net influx of capital into Germany of £910† million, and that in December 1930 German foreign indebtedness amounted to £1,275 million. The net capital influx, supplemented by £150 million derived from invisible exports, provided the interest on Germany's commercial debt, an import surplus of £315 million and reparation payments of £515 million, and in addition enabled Germany to increase her holding of gold and foreign exchange by £105 million. Of the total foreign indebtedness of Germany at the end of 1930 £515 million was short term, and by the end of July of this year this figure had been reduced, through withdrawals, to £400 million.‡ This in itself explains the German crisis of this last summer. To

* See p. 71.

† As possibly more quickly comprehensible to an English reader, all figures are given in sterling at RM. 20 to the £.

‡ The German authorities have recently published figures which suggest that the totals are considerably greater than was thought in August.

The Crisis of To-day

meet this situation Germany has been compelled to obtain a moratorium on her short-term liabilities to foreigners (the so-called "Standstill Agreement," which expires at the end of February next) to introduce government solely by decree and by decree to control and regulate the financial and commercial activity of every German citizen, and to devote all the efforts of her industrial organisation, at whatever cost in the impoverishment of the German people and the further lowering of their standards of life, to the creation of an increasing export surplus. In the judgment of the Bankers Committee, the imperative need of Germany is for long-term credits in partial substitution for and in addition to her short-term credits, and on the same authority this is a need which cannot be met until a political *modus vivendi* is reached with her neighbours and the reparations debt is dealt with on rational lines.

Hungary is a predominantly agricultural country with an industrial superstructure which has survived from a former existence. Industries planned for the Austro-Hungarian Empire, with a home market of 46 million people, cannot prosper in a market reduced to $8\frac{1}{2}$ millions and surrounded by hostile and protectionist neighbours. Only the richness of Hungarian soil and the character and energy of her agricultural population have brought Hungary through the perils of communism and currency depreciation and the economic follies of the Peace Treaty. But when Hungarian agriculture is undermined by the catastrophe of prices, there is nothing left. The figures are eloquent. Between 1927 and 1930 an unfavourable balance of £47½ million* was covered entirely by foreign borrowing at long and short term. The total foreign debt is now £146 million and the annual service nearly £11 million. Most of this debt was incurred with wheat at 30 pengö : to-day's price is 9 pengö. The result, as in Germany, is an enforced moratorium on the short-term foreign debt, and a frantic endeavour,

* Converted at 28 pengö to the £.

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prompted in this case by Geneva, at all costs to increase exports and curtail imports.

Brazil has fallen on similar troubles by another road. The very extent of her territory and its heterogeneous population create administrative problems which in the most favourable circumstances must retard and impede the exploitation of her immense natural resources. Yet, in the past, development has proceeded, at its own gait—and with many set-backs—but still surely. Foreign borrowing is rightly the first condition of Brazilian progress, and Brazil has been on the whole a good debtor, in spite of a unique talent for the progressive devaluation of her own currency. In recent years the long-term foreign debt of the Federal Government, the States and other public bodies has grown rapidly, and by 1930 it amounted to £282 million.* This movement synchronised with a rising price for coffee, which has always been the principal article of export. Trusting to her dominant position in the coffee trade, Brazil began in 1925 to "defend" coffee, that is, to maintain its price artificially. By the act of God, which brought two record crops in three years, and by the working of economic law, which ensured that rising prices should lead to over-production, the defence scheme broke down as soon as commodity prices in the United States began to fall. Brazil was left with large stocks of coffee which no one wanted, and after reaching an average price of £5 a bag in 1928, the price has fallen to £1 18s. (the average for the first 8 months of 1931). The effect on the Brazilian balance of payments was disastrous. In 1928 the value of coffee exports was nearly £70 million out of a total of £97½ million: in 1930 the figures fell to £41 million and £66 million.† As Brazil's requirements of foreign exchange to meet her debt service and private remittances abroad have remained constant in the neighbourhood of £40 million, and as further foreign borrowing

* *Vide* Sir Otto Niemeyer's Report to Brazilian Government, July 1931.
 † See the official statistics of the Federal Government of Brazil.

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is out of the question, it is not difficult to understand that the recent partial default by Brazil on her foreign obligations was unavoidable. British investments in Brazil are estimated at about £300 million and the effects of this default on our own balance of payments are thus patent.

IV. GREAT BRITAIN'S PROBLEMS

“*Mr. Jones, at the meeting of the Proprietors of the Bank of England, September 13, 1866, gave it as his opinion that ‘the main cause of the recent monetary crisis was that while we had bought £275 million of foreign produce in the year 1865, the value of our exports had only been £165 million, so that we had a balance against us to the amount of £110 million.’*”—(*Economist*, September 22, 1866, quoted in Bagehot's *Lombard Street*.)

IN the chaotic world which has been described, the situation of Great Britain can now be seen in its proper setting. The main facts are well known and those who wish to follow them in detail through a statistical demonstration will find them conveniently set out in a recent article* by Mr. C. G. Clark. It is not difficult to imagine what would have been the observations of Bagehot's Mr. Jones to his fellow Proprietors after reading the figures of the last few years. In the first place, the value of exports has steadily fallen: these are the gold values in millions of pounds:—

				1931 (annual rate).		
				1st quarter	2nd quarter	3rd quarter
1913	1926	1929	1930	525	653	729
				571	413	383
						373

Expressed as a percentage of the aggregate exports of all manufacturing countries, our exports have fallen from

* Statistical Studies of the Present Economic Position of Great Britain. *The Economic Journal*, September 1931.

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almost 26 per cent. in 1925 to less than 20 per cent. by the beginning of 1931. Simultaneously manufactured imports have assumed a growing importance: the percentage relation between manufactured imports and our total home production of manufactured goods has risen from 11.9 per cent. in 1924 to 15 per cent. in 1930. The loss of export trade has been a main cause of unemployment. The number of insured workers in employment in, or in connection with, the export trades was 2,175,000 in 1924, 2,200,000 in 1929, and 1,400,000 in March last. It is significant by contrast that employment in the consumption industries has hardly decreased at all since 1929.

The two main causes of these changes are that our industries have not been competitive and that some of our best markets, such as India and Australasia, have felt the full force of the depression. We have ceased to be competitive because for many reasons our costs have proved inelastic. Our money costs have been too high in terms of gold relatively to costs in other countries. Real wages in England in 1930 were 21 per cent. higher than in 1914, and 10 per cent. higher than in 1924. Our basic industries have lost the power to make profits, with the result that capital expenditure, enterprise and development have tended to be restricted, while the demand for consumable goods has been maintained and imports encouraged by a high level of money incomes. In such conditions, adjustments must be made voluntarily and in time, or they will be imposed by an increasingly unfavourable balance of payments. Mr. Clark gives a table which would indicate that since 1924 this country has on one occasion only, *i.e.*, in 1929, shown an actual net credit on her balance of payments after including new overseas issues, and that there must have been an influx of new foreign money into the country during those years of nearly £300 million. In 1930 the balance available for new lending abroad was only £39 million, and with the rapid subsequent deterioration both in exports and in our income from investments and

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services it seems certain that the unfavourable balance for 1931 will be anything from £50 to £100 million. Although the collapse of the sterling exchange was in the end accelerated by the central European crisis and the general atmosphere of panic, all the indications are that it could not have been long deferred.

V. THE CONDITIONS OF WORLD RECOVERY

FEW of us are interested in diagnosis without cure, and the question what the world can do to be saved awaits an answer. Our own belief is that the road to recovery bristles with difficulties and that there is no short cut to prosperity. It is only necessary to examine any aspect of the problem as we have attempted to unfold it for it to be apparent what a decisive part human folly and human weakness have played in the past and how improbable it is that humanity will in a night acquire wisdom and strength and tolerance.

Take the German situation. At the end of February the Standstill Agreement will expire and the bankers of the world will be free to call in short-term credits amounting to £400 million, or, if the latest figures are correct, to considerably more. In July Germany will, in default of an extension of the Hoover moratorium or some new arrangement, again become liable for the payment of about £81 million a year on reparations account. It is certain that Germany cannot pay off her short-term obligations at maturity and that the resumption of large-scale reparation payments would be followed by disastrous consequences both to Germany and to the rest of the world. What are the omens at the moment? The Hoover-Laval agreement throws the reparation problem back on Europe, and the only procedure contemplated appears to be that Germany should appeal under the Young Plan to a committee which is debarred by the terms of that Plan from

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considering at all the unconditional annuities of £31 million. French public opinion has urged that reparation payments should rank before bank credits, and as France is entitled to 51 per cent. of the full annual payments under the Young Plan and to 82 per cent. of the unconditional payments, whereas her claim as a short-term creditor of Germany is only a fraction of those of Great Britain and the United States,* this attitude is intelligible. Yet there could be no more serious obstacle to world recovery than that the French view in this matter should prevail. It is easy at this date to criticise the bankers of England and America for granting facilities to Germany which are now seen to be excessive: it is easy, too, to forget that without those facilities neither reparation payments nor remittances directly or indirectly dependent on them in settlement of war debts could ever have been made. But the criticism is irrelevant. The debts exist and will not be renewed under any arrangement which leaves the fundamental causes of German embarrassment untouched. International banking is the life-blood of world trade, and if its resources are to be congealed and their free flow interrupted, not the bankers only, but the whole world will be crippled. By a pleasant irony the same stroke will end reparation payments for ever. Unless a settlement can be reached within the next few months which will make Germany again a fair credit risk, the outlook will be black indeed. If, on the other hand, it should prove possible by the abandonment of reparations and other non-commercial international debts to remove from world economy a burden which has been found intolerable, a major cause of world depression will have disappeared.

It has become abundantly clear, to take another point, that half the economic problems of the world are insoluble at the present level of prices. Debtors cannot hope to

* Of the credits to German commercial banks, for which detailed figures are available, the United States on July 31 last held 37 per cent., Great Britain 24 per cent., Switzerland 13 per cent. and France under 7 per cent.

The Conditions of World Recovery

meet their obligations by following what appears to be the prevailing fashion and practising, in a phrase used by the *Economist*, "the self-contradictory policy of exports without imports." They would be unwise, even if lenders appeared over the horizon, to attempt to meet their debts by further borrowing. A rise in prices may well seem the only alternative to *tabulae rasa* and a fresh start. In present conditions the course of gold prices depends primarily on the monetary policy of France and the United States. If they wish, it is in their power, so long as they remain on the gold standard, to raise their domestic price levels by adding to the currency and credit available up to the limit permitted by their existing legislation and beyond that, if necessary, by reducing the legal minimum cover held in gold against their note circulation and their sight liabilities. If they hesitate to take that step, it is probably because they recognise that it is easier to set on foot an inflationary movement than to control it. But the choice is a choice of risks, and the consequences of a continuance of their present policy are hardly open to doubt. The sterilisation of gold on the scale on which it is now practised in France and America reacts in the end on the owner, and no country can in the long run maintain the position of a creditor nation enjoying a large export trade if it refuses either to buy or to lend abroad. Nor is it likely on such premises, and without a redistribution of gold stocks, that the gold standard itself can survive.

America and France are extreme but not isolated devotees of high tariffs. The same regime prevails in half Europe and in many of the new countries of the world. It has been reinforced by the organised "defence" of this or that commodity. It is idle to expect the reasoning which has created this regime or the interests which have grown up with its protection to crumble into ruin, like the walls of Jericho, at the blast of a trumpet. Even to-day, notwithstanding the pressure of harsh economic necessity,

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self-sufficiency is still the prevailing gospel, and it is to be feared that nothing but a long and painful process of education will expose its inadequacy.

To indicate, however summarily, some of the elementary conditions of recovery is sufficient to throw into relief the formidable difficulties which they present—difficulties of politics, of national psychology, of economic ignorance. Can such difficulties be quickly overcome? The Washington correspondent of *The Times*, at least, seems to have no illusions on that score. As these lines are being written, this* is his verdict on the American prospect.

The present position of the United States is not in doubt. This country will take no further initiative in matters economic (Mr. Hoover's moratorium proposal will have no successor), and it will have no contribution, in the form of international responsibility openly undertaken, to make to the problem of the organisation of peace. If there is a way out of European troubles, it is clear that Europe must find it without direct American assistance. . . . There are signs, moreover, not only that the world's greatest creditor nation will leave its tariff policy untouched, but also that in the years immediately to come it may be an exporter of capital to a very insufficient degree.

VI. GREAT BRITAIN'S TASK

WE may well ask what should be the objects of British policy in a world so distraught. The nation is still immersed in the novelty, the uncertainties, the exciting possibilities of an emancipated currency. It has observed the first faint dawning of a trade revival. It understands vaguely that there is now a premium on exports, a penalty on imports. Immense stocks held in the country have combined with the unbridled competition of our foreign purveyors to postpone any appreciable rise in prices. For the moment we have most of the advantages of currency devaluation with few of its countervailing drawbacks. Our objective must be to retain that happy position for as

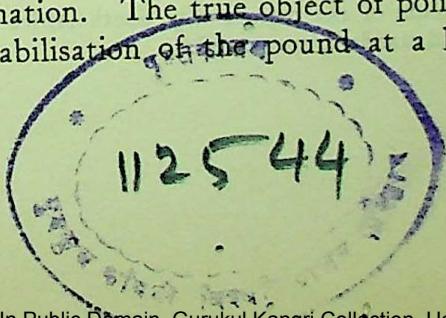
* *The Times*, November 7, 1931.

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long as we can and to employ the respite in correcting our essential weaknesses.

The first of these is our adverse balance of payments, and the shortage of liquid foreign assets held by our Central Bank. If trading conditions throughout the world were normal, it is probable that the advantage for our export trade of a pound at \$3.80 would suffice, at least temporarily, to redress the balance. But trading conditions are not normal, and in many markets even cheapness cannot stimulate buying. It may be necessary to add some form of statutory discouragement of imports, but there should be no illusions as to the dangers of such a weapon since we went off gold. When once a currency has dragged its anchor, it is exposed to all the force of wind and waves, and this is true to an exceptional degree of a country so dependent as ours on its imports for the necessities of its existence. If for any reason, whether currency depreciation or customs duties, or the refusal of any class to make reasonable sacrifices, a rise in our level of money wages is forced on us, we shall find our budget equilibrium endangered, our balance of trade still further deteriorating, and the pound launched on the slope to Avernus. The test of success in our monetary policy in the near future must be our power to attain relative stability of the pound.

At what level should we seek stability? Only time can show. It is folly to expect either too much or to aim at too little. There are some, no doubt an insignificant minority, who would like to see the pound back at the old exchange level. That yearning is unlikely to be gratified, except by the depreciation of other currencies and not by the appreciation of ours, and if it were we should groan under the burden for a generation. Others are ready to assume that by the devaluation of the pound we can halve the National Debt. Even that is possible, but at the risk of finding it not halved, but eliminated, and with it the accumulated savings of the nation. The true object of policy must be the *de facto* stabilisation of the pound at a level which



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does not require an increase in present wage rates. That level can only be found by trial and error, by a deliberate effort to keep fluctuations in sterling within ever narrowing limits. If we can hit the mark, the ultimate revival of trade and industry will lighten the burden of all budget charges, and though the ratio between the service of the National Debt and the total of the budget may not be materially altered, the buoyancy of the revenue and the creation of conditions favourable to conversion schemes will make the debt service less intolerable.

By *de facto* stabilisation we mean stabilisation without the anchorage to gold. If comparative stability can be combined with a free market in forward exchange, most of the practical objections to a currency divorced temporarily from gold lose their force. Even the sterling bill, backed by the unrivalled facilities of the London market, need not despair. In the view of THE ROUND TABLE, it would be little short of madness for us to link the pound again to gold until it is clear that international conditions will permit of a more normal working of the gold standard than we have seen since the war. At the moment the gold standard has little reality outside France and the United States. If Germany and Hungary and Poland and South Africa* still profess adherence to it, that adherence is maintained only by a formal or informal restriction on the transfer of funds. The individual who finds that, because South African exporters refuse to pay the premium necessary to repatriate their export balances, he himself must resort to the subterfuges of the underworld in order to withdraw £1,000 from his bank in Cape Town and remit it to London, may well regard the latest practice of the gold standard with a certain cynicism. The wise course is to face the fact that the international regulation of the exchanges through the medium of gold has broken down, and to wait on events.

For these tasks which confront us this country is not with-

* For an account of the reasons why South Africa is endeavouring to keep to the gold standard, see p. 188.

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out resources, moral and material. The Government can rely on the declared determination of the nation to see the thing through. It need have no anxiety as to the fundamental soundness of our banking system or the resilience of the most highly organised money market in the world. We are still the greatest creditor nation, with immense assets abroad, even though they are not in present conditions readily realisable. Even internationally, as an offset to our relative temporary financial weakness and our diminished financial prestige, we have the knowledge that the world wants us back on gold as soon as possible and that it lies with us to say when we shall go back. These are days not for optimism nor yet for despair; and if the march of events should allow Mr. Ramsay MacDonald to relax into a mood of relative cheerfulness, he may well call to mind the words which Abraham Lincoln, in a crisis of the Civil War, addressed to his Cabinet: "*Now, gentlemen, we have got our harpoon into the monster, but we must still take uncommon care or else by a single flop of his tail he will send us into all eternity.*"

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APPENDIX I.

BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED KINGDOM.

* Compiled from the estimates of the Board of Trade and the Midland Bank Ltd.

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APPENDIX II.

BALANCES OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, CALENDAR YEARS 1922-1930.* (In millions of dollars)

Class of transactions (gross or net)	1922	1923	1924	1925	1926	1927	1928	1929	1930 (unrevised)
COMMODITIES (ADJUSTED)									
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5,333	5,447	4,097
Imports	3,419	4,162	3,952	4,544	4,766	4,508	4,468	4,799	3,339
Balance of trade (adjusted) ..	+702	+206	+882	+633	+278	+583	+865	+648	+758
MISCELLANEOUS INVISIBLE ITEMS.									
Freight: Ocean, Great Lakes and railway (net)	-79	-83	-64	-84	-95	-66	-32	-66	-96
Expenditures by American tourists: Canada and Mexican frontier ..	-100	-131	-159	-185	-201	-231	-293	-334	-322
Overseas, including West Indies ..	345	313	374	400	422	465	531	534	489
Expenditures by foreign tourists in United States ..	+87	+104	+107	+112	+148	+163	+163	+183	+171
Ocean-borne passenger traffic ..	+53	+60	+53	+63	+69	+89	+44	+47	+49
Interest on American private funds abroad (long and short term) ..	+555	+594	+635	+689	+740	+800	+896	+979	+904
Interest on foreign funds in United States (long and short term) ..	-144	-180	-192	-229	-268	-281	-359	-414	-310
War-debt receipts (principal) ..	+32	+92	+23	+26	+35	+46	+50	+62	+77
War-debt receipts (interest) ..	+126	+167	+160	+160	+160	+160	+157	+145	+164
Other governmental transactions (net)	-46	-66	-53	-61	-49	-29	-57	-92	-81
Immigrant remittances (net) ..	-255	-229	-229	-235	-218	-206	-218	-223	-166
Charitable and missionary contributions	-75	-70	-55	-50	-46	-49	-51	-49	-49
Other items (net)†	+46	+57	+68	+74	+74	+74	+24	+25	+7
Total, commodity and miscellaneous (net)	+557	+208	+802	+513	+205	+588	+658	+377	+617
NEW PRIVATE LOANS, INVESTMENTS AND DEPOSITS									
Net increase in American long-term investments abroad (par value) ..	-857	-258	-869	-872	-808	-972	-1,317	-791	-406
Deduct bond discounts and underwriters' commissions on above ..	+101	+48	+125	+119	+121	+119	+122	+26	+66
Net cash payments for above ..	-756	-210	-744	-753	-687	-853	-1,195	-765	-340
Net increase in long-term investments in United States by foreigners	+3	+240	+11	+193	+147	+158	+477	+446	+50
Change in net debt of American banks to foreigners	+375	+3	+216	-61	+359	-	-226	+13	-443
Net private capital movement (long and short term)	-378	+33	-517	-621	-181	-695	-944	-306	-733
OTHER BALANCING ITEMS.									
Gold shipped or earmarked (net) ..	-234	-295	-216	+102	-72	+154	+272	-120	-278
Shipments of American paper money (net)	+40	+50	-20	-30	-	-	-	-	+20
Add for net discrepancy due to inaccurate figures, omissions, etc. +15 +4 -49 +36 +48 -47 +14 +49 +374									

* From Trade Information Bulletin No. 761 of the U.S. Department of Commerce.

† Largely a deduction from American tourist expenditures overseas.

‡ Includes insurance, motion-picture royalties, cable charges, Canadian electric power, press subscriptions, patents and copyrights, and advertising.

THE EUROPEAN PROBLEMS OF THE UNITED STATES

I.

NO doubt you will recall the trouble Alice had with her flamingo ; " generally, just as she had got its neck nicely straightened out, and was going to give the hedgehog a blow with its head, it *would* twist itself round and look up in her face." But perhaps that's the way of the flamingo, as it most certainly is the way of the Post-War Problem.

Take, for example, the matter of making Germany pay for the war. At the outset, in 1919, the principles were clear ; Germany had been guilty of causing it, now she must pay for it. These two indisputables were written into a treaty, and thereby became what might be called the Paris idea. But the German people at once repudiated the admission of guilt which their representatives had signed ; and, I dare say, began to consider how they might also avoid the financial obligations which these same representatives had undertaken. At all events, the German mark became worth next to nothing three years later ; so her creditors, fearing communism in the Reich, concluded that it would be a good thing, a "stabilizer," if the annual payments to be made on reparations account were fixed in figures, once and for all. Perhaps that might be called the Dawes idea.

The schedules were so fixed, and became effective on September 1, 1924. Mr. Parker Gilbert was appointed Agent-General for Reparations, the mark was restored to a

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gold basis, and the United States began to make loans to Germany. Indeed, in less than five years, from September 1924 to the spring of 1929, American investors managed to advance the sum of \$1,185,000,000 on a long term basis to the German Government, its States, municipalities and industries. Then suddenly, and chiefly because of the greater speculative attractions of New York Stock Exchange, the eastward flow of loans dried up. Germany's financial condition, we heard, was again critical; and we were told that this situation arose from the fact that though her annual payments had been determined, the total figure had not been fixed, nor the period of years over which the payments were to run. Out of a third international conference emerged the Young idea—that the total figure should be \$27,641,942,800 and that reparations annuities should be spread out over three generations.

So in September 1929, with the flamingo's neck all straightened out, the game began again. Two hundred and fifty million dollars more went out of American savings into German bonds, and American bankers continued to extend three and six months' accommodation to German borrowers, running to perhaps seven hundred million dollars more on the average. Thus between the end of 1924 and July 1, 1931, we had made fresh loans to Germany amounting to about \$2,100,000,000; out of which, or as a result of which, Germany managed to pay to her creditors on reparations account the sum of \$2,600,000,000. These creditors in turn, being indebted to the United States, paid somewhat less than two billions of it back.

In June of this year, following the collapse of the Credit Anstalt in Vienna and its rocking repercussions on German private finance, Germany walked on the edge of ruin for the third time since the war. The official manifesto published in Berlin on June 6 stated that the Government had now imposed upon its citizens all the privations which they could possibly endure: that the financial situation of the Reich, seriously menaced, required that Germany be

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relieved of reparations ; and that the economic fabric of the world was in danger of being rent to pieces. This declaration, in terms of international finance, meant at least these things : that Germany believed she could not (and even if she could, perhaps would not) make any further payments on reparations account ; that, unless help were immediately forthcoming, the principal of her external private loans might be lost to the foreign investor, and the short-term banking advances still lying in Germany might never be returned to England, the United States and France.

The financial crisis revealed by Brüning's manifesto of June 6 was in part caused, and in part further aggravated, by the withdrawal of foreign balances from Germany. It is said that total withdrawals for the first two weeks of the month reached a sum equal to £40,000,000. For this exhibition of panic psychology, the London fraternity was quick to blame "the inexperience of American bankers," but Wall Street, in turn, has more than a suspicion that English banks, nearer to the situation, had silently begun to drain off their own German credits some weeks before New York took fright. In fact, the problem of fixing the blame becomes more complicated as time goes on. Staid old Alexander Dana Noyes of the *New York Times* financial page speaks on October 30 of "the part that the Paris banks played in the panicky snatching, directly or indirectly, at their German credits." What, France too ? Better to let the quarrel pass ; for as in the mooted question of who started the war, and the footling question of who won it, the "effective cause" will probably never be determined.

It is enough to remember that there was (and on November third there still is) in Brüning's broadside something more than a warning, something more than a cry for help. There was and there is the cream of a tragic jest. For if a general default of German privately held external debts were to take place, and if the books of reparations and war

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debts were to be closed, an accounting would show the American people to be \$2,000,000,000 better off in the Treasury of the United States, and \$2,000,000,000 worse off in the value of their private investments. It would show the German Treasury some \$2,600,000,000 out, and (including private loans from citizens of the Allied countries) a far greater amount in. Or nothing in for the United States and nothing out for Germany, and a fine deficit on balance for England. For France, about as much as she suffered from the physical havoc of the war. All that we would then need to put us back to 1914 would be a revision of the territorial clauses of the Versailles Treaty (which is under discussion) and the return of Germany's colonies to her rule (which may yet be the price demanded by a Hitlerite Germany for her co-operation in international recovery). Back, in broad outline, to 1914, with 8,750,000 dead, more than 21,000,000 wounded, seventeen years of bitterness, high nationalism and suspicion—stupendous internal debts in the English-speaking countries, their partial repudiation in Germany and France—and for the millions of dead and the billions of waste—not even on the basest reckoning one compensating penny anywhere to show for it. God help us !

And yet might we not have another war—just a little one ? It wouldn't cost much more money or many more men. Just a limited affair which would expedite this matter of returning Germany's colonies to her and of revamping some of those mistakes in territorial arrangements which crept into the Treaty of Versailles. It would only cost a couple of millions and billions respectively, and at its end we could let the devils of hell off the leash and invite them all to dance and sing to their hearts' content over the litter we have made of our lives.

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II.

ON June 20 last, President Hoover made a memorable offer, "The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including the obligations of governments held by private parties . . . to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences abroad." This was the Hoover idea.

It did seem to us across the Atlantic that the Germans were unusually stupid in pressing the *Anschluss* with Austria, parading the *Stahlhelm*, and announcing a second "pocket battleship" in a period of such crisis. It did seem that the French were incredibly small in withholding their support of the plan through sixteen anxious days, while the economic structure of the so-called civilized world and the political structure of Continental Europe swayed back and forth toward the angle of break. These things probably have lost their importance, if they haven't, the historian will take care of them. He will also leave a record of the fantastic fortnight that followed France's deferred assent—statesmen and bankers came and went, here, there, and everywhere.

And thick and fast they came at last,
And more, and more, and more.

Luther on the wing, to London, Basle, Berlin and Basle; Montagu Norman on his heels; Henderson in Paris, Stimson in Rome, with Mellon joining him in Paris from the Riviera; Brüning to Rome and to Paris—and finally their trek to London on July 20 to attend a conference at the invitation of the British Government, exactly one month

The European Problems of the United States after the President of the United States had made his offer.

The Conference met, discussed matters for three days, and rose—without breaking up. This alone was an achievement, for its powers were uncertain, its terms of reference were vague, and the atmosphere was charged with bitterness and recrimination. But what is more, the Conference made certain definite proposals : one led to a six months' moratorium on German short-term private debts arranged by a committee from private financial institutions of the creditor countries ; the other resulted in a summary study of Germany's financial situation, with particular reference to the conditions under which long-term lending might be resumed. The report deplored the lack of confidence among nations, suggesting an economic rapprochement between Germany and France ; it called attention to the growth of tariff barriers as an impediment to international trade, and urged a reconsideration of the problem of inter-governmental debts. Thus the committee of bankers gave back to the statesmen the task which the statesmen at London had put upon them. A month had been lost, but by this procedure much more was gained ; and what first looked like an evasion of responsibility on the part of the Conference turned out, in the end, to be a stroke of genius.

Mr. Hoover's offer had been well received both in this country and abroad. Even the French authorities, while resenting the way the plan was pushed at them, did not look with disfavour upon the proposal itself. It provided relief at a tense moment in the affairs of international finance, and it encouraged a hope abroad that the United States might go still further toward cancellation of debts and membership in the League of Nations. This expectation was increased when Messrs. Stimson and Mellon attended the London Conference, not as "unofficial observers" nor in any other such ambiguous capacity, but as accredited representatives of the American Government ; and it swelled perceptibly, during the Manchurian crisis

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of October, when Mr. Prentiss Gilbert was instructed by Washington to sit with the Council of the League. These incidents seemed to mark a change in the spirit and technique of American foreign policy. Hoover, long reined in, had taken the bit in his teeth and had started down the road. So it may have appeared; but the inference is hardly justifiable. For Woodrow Wilson started down the road alone twelve years ago, with disastrous results, and it is doubtful whether any other Chief Executive of our generation, in his senses, would be willing to try the same course again. Indeed, when Congress meets in December and the President is called to account (as he undoubtedly will be), many of Hoover's best friends want him to make it clear that the London appointments and the instructions to Gilbert were employed as the only means to meet the worst crisis in the great depression, and that there is no thought of following their implications any further. That ought to be a satisfactory explanation of the status given to Mr. Stimson and Mr. Mellon; but it will not be so easy to justify Mr. Gilbert's rôle at Geneva. For his appointment was not a thing by itself: it followed assurances by the Secretary of State that the United States stood ready to "reinforce" the League in the Manchurian matter. In 1919, when the Covenant of the League was being drafted in Paris, a certain distinguished statesman observed that, in his opinion, Article 10 was dangerous. "Either it means something revolutionary in international affairs, or else it means nothing. In either case it should be left out." The use of the word "reinforce" is subject to the same objection. Just how, if you were a drafting clerk in the Secretariat at Geneva, would you translate that word into French? And would you be sure that the French verb you chose correctly carried the same admixture of military, economic and moral horsepower that Mr. Stimson had in mind when he used it? More will be heard of this Geneva incident before Congress adjourns next spring.

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In the *New York Tribune* of October 13 Walter Lippmann shrewdly suggested the possibility of projecting this "action" on to another plane:

The precedent thus established (he wrote) is more than ample for reaching an excellent understanding with M. Laval when he arrives. M. Laval will not expect us to ratify the Covenant, and no informed Frenchman is asking the United States to sign a diplomatic blank check. But if the Administration is able to point to the Manchurian action as a precedent, and to say to France in terms which satisfy the French instinct for lucidity that the precedent can be relied upon in the future, it should be possible to make immense progress in the reduction of armaments and the stabilization of Europe.

If this intimation was given to M. Laval by Mr. Hoover, it evidently did not work as a substitute for a security pact. Being unwilling to accept the one, and being unable to get the other, M. Laval seems to have decided to let well enough alone. Indeed, his position is even happier than that, for first among the souvenirs of his flying trip to the United States he cherishes Senator Borah's incredible and lovely gift—the Senator's admission that French armaments and French security are matters to be gauged by the judgment of France alone.

III.

"**T**HE question is," said Humpty Dumpty, "which is to be master—that's all?" The answer is—France.

On October 25 President Hoover and M. Laval issued a *communiqué*, stating that they had "canvassed the economic situation in the world, and the trends in international relations bearing upon it; the problems of the forthcoming conference for the limitation and reduction of armaments; the effect of the depression on payments under inter-governmental debts; the stabilization of the international exchanges and other financial and economic subjects." They laid stress upon "the importance of monetary stability as an essential factor in the restoration of the normal economic life

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 in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence." They felt that before next June some agreement regarding inter-governmental payments "may be necessary covering the period of business depression," and they thought that the initiative in this matter "should be taken at an early date by the European Powers principally concerned within the framework of agreements existing prior to July 1, 1931." The United States thus turns over to France the initiative with regard to inter-governmental obligations, holds out the possibility that Allied debts due to the United States will be reduced once reparations have been scaled down, and abandons the idea of making progress in the near future in the matter of disarmament. In return France appears to agree to stop drawing gold out of New York except in orderly fashion and for substantial reasons. These conclusions are open to no other interpretation than that the United States abdicates, in favor of France, the position of leadership which she assumed on June 20 through Hoover's proposal for a moratorium. France evidently wants the power which such a position brings: so in that respect M. Laval won a striking victory. It must be set down as a rather empty triumph, however, for, if one thing is clear, it is that the United States is quite prepared to surrender leadership to France or to any other appropriate and responsible government.

For the past ten years, or to be more exact, ever since the funding of the British debt to the United States, the policy of Washington has, in the main, moved along parallel lines with that of London. If Germany and France were at variance with each other over the Ruhr, reparations, or the German-Austrian customs union, the two Anglo-Saxon countries were inclined to support the German point of view. So far as the United States was concerned, this policy was expressed in public opinion rather than in governmental action; but whenever private

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American citizens served on European committees formed to deal with European problems, they tended to listen sympathetically to Germany's complaints, and to act as a restraining influence upon French demands. England and the United States, officially and unofficially, pursued their separate courses of action under a set of common principles.

The extreme case, of course, occurred in June, when the plan for a one-year moratorium was devised and announced pursuant to an agreement between American and British authorities, without consulting Paris. At that signal France displayed an unexpected independence. Her financial position had become strong, her industrial position was not weak, her diplomatic position on the Continent was solid. For more than a fortnight she held the rest of the world in suspense while she exacted certain modifications in the Hoover plan to meet her views. The decision of the World Court against the German-Austrian customs union gave her encouragement: the visit of Brüning to Paris strengthened her sense of power. Then London began to feel the effects of a run on her gold and, in the end, had to suspend the gold standard. The American people received this announcement "more in sorrow than in anger." Banks with London credit balances took their losses in good spirit. It seemed to be the general feeling that England had once restored the pound to par by sheer force of will; but that the burden of keeping it there had become too heavy for her to sustain. Such was the friendly personal view. But common sense suggested that the financial objectives of the United States and England might no longer be the same: and that it would be illogical to continue a now uncertain partnership to the further alienation of French goodwill. It is doubtful whether Hoover and Laval did reach, or ever could reach, a partnership in the Anglo-Saxon sense of the term; but it is certain that they arrived at a *modus vivendi* under which the next chapter of reparations and war debts will be written.

The better informed opinion in the United States has

The European Problems of the United States found an excellent spokesman in Mr. Thomas W. Lamont, of J. P. Morgan and Co. In the *Saturday Review of Literature* of October 31, 1931, in the course of a criticism of Dr. Schacht's new book, he summarizes the situation as it stands to-day :

There must be some common ground of agreement that the German and the French people can and eventually should reach . . . There must be some figure of reparation payments that the Germans themselves should be moved to propose ; a figure not so unreasonably small as to deserve the contempt of the creditor Powers, not so large as to be beyond the assured capacity of the German people to pay . . . It now becomes the prime business of the European governments to undertake to settle the question of reparations, and that without American initiative . . . Certainly, after the sensational events of the last few weeks, especially Great Britain's suspension of the gold standard, no sensible American can have serious question that the Administration at Washington will be prepared to receive with an open mind any fresh proposals of a constructive nature that emanate from the governments of Europe.

Mr. Lamont certainly voices our better opinion and he probably forecasts correctly what Congress in the end will do. But Mr. Hoover will have no easy time of it when Congress reconvenes in December. First of all, the House of Representatives is likely to be Democratic. As the result of five bye-elections held on November 3, the Opposition party can now claim 217 members, the Republicans 216, and the Farmer-Labor party 1. A seat in the fifth New Jersey District is to be filled on December 1 and the one remaining vacancy, a New Hampshire seat, will be decided on January 5. The probabilities are that the Democrats, having a nominal majority, will be asked to organise the House : and that the balance of power will lie with the one representative of the Farmer-Labor party.

Moreover, when M. Laval finally approaches the American Government with a new plan involving the payment of German reparations (or their non-payment !) he will find

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more hostility to his suggestion of a corresponding reduction of Allied debts to the United States than he has been led to expect. The joint *communiqué* which he and Mr. Hoover put out at the conclusion of their conversations, suggested that Washington would entertain the idea of *some* reduction. Perhaps further details were privately and tentatively agreed upon. But at the same time one cannot help deplored the appearance in *L'Information* of an article by Count Fernand de Brinon, who accompanied M. Laval on his Washington visit :

It can be affirmed, in effect (he writes), that Mr. Hoover has agreed to confide to France the task of discovering in the general interest, a new settlement of reparations ; and that in exchange for this settlement he has engaged himself to support before Congress an equivalent reduction in debts owed America.

The Treasury of the United States is confronted with the staggering problem of meeting a deficit of over \$2,000,000,000 for the current fiscal year. Congress will be badgered with demands for relief on an unprecedented scale. Whatever may eventually be decided in Washington with regard to war debts owed to this country, Congress will not cheerfully accede to the necessity of revising or cancelling these obligations, and will doubtless show their resentment at the fact that Mr. Hoover gave to M. Laval the concrete assurance that he is alleged to have given.

So . . . under the new dispensation, France and the United States will co-operate to maintain the gold standard, and France will take the lead among European nations in arranging what is hoped to be a permanent settlement of the problem of reparations. The United States will give friendly consideration to corresponding suggestions concerning war debts.

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IV.

AS for the question of disarmament, it seems that Mr. Hoover and M. Laval have laid it on the table to await a more propitious season. Their *communiqué* stated that the task of the Disarmament Conference in 1932 would be "the organisation on a firm foundation of permanent peace."

We have been slow to realise that nothing can compel Germany to pay reparations against her will; even more slowly have we learned that nothing, in the last analysis, except their free consent, can compel debtor governments to pay their obligations to the United States. But, if it is now too late to trade these debts against disarmament, it is not too late nor too much to look for a voluntary proposal in this respect from France.

But even without this, permanent peace can be considerably advanced at the Conference in 1932, or before it, or at any time that statesmen really care to advance it. No admirals are needed, and no statistics: but a brief agreement among the principal nations that from now on they will collect their taxes in two assessments. The first would require the tax-payer to make his annual contribution to the expense of past, present and future wars; the second would fix his payment for the constructive activities of his government. No statesman who professes to prefer a regime of peace to one of war could honorably refuse to enter such an agreement. And the fellow who pays for it all, learning for the first time that sixty-five per cent. of his tax was to be paid under the first assessment, and only thirty-five per cent. under the second, would shortly, at the polls, have something of moment to say to his governors on the subject of disarmament. In all conscience he is entitled to know the facts and to speak his mind.

The United States of America,
November 6, 1931.

THE WORLD AND THE CRISIS

I. THE FALL OF THE POUND

WE have passed through another three months of the world-crisis and, like the Abbé Sieyès, some of us may say *nous avons vécu* with a certain air of thankfulness. At least the predictions of the darkest prophets who foresaw the imminent collapse of Western civilisation have not yet been realised. The evil of the day has indeed been more than sufficient, but there may perhaps be ground for hoping that the climax of the economic tempest has been reached, if not passed. In any case, it can do no harm to strain the eyes in the blackest hour to discover whether some faint ray of dawn may not be discernible.

When the last number of this review went to press, the inexorable advance of the depression had pushed Germany and central Europe to the edge of the abyss. The London Conference, hastily convened to meet the crisis, had failed to find any radical remedies. Though it took measures for propping German credit by extending the loans which could not be repaid, it did nothing to remove the causes which had brought about the breakdown of international credit and had destroyed the foundations of confidence. As these causes still persisted, their paralysing effects steadily spread through the arteries of the world's financial system, until finally they reached its heart, the City of London. For the first time in modern history it was unable to meet its obligations. Just as banks all over the world could not

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realise their assets in order to meet the panicky withdrawals of their clients, so finally the hub of the banking universe failed to stand the unprecedented strain to which it was subjected. The whole of Europe was shaken by the threatened failure of Germany, Austria and Hungary. Heavy calls were made on London by depositors who wished to reinforce their liquid assets to meet sudden liabilities. The run stimulated the fears of many abroad who had seen England's economic situation painted in funereal colours by certain French observers widely regarded on the Continent. These fears found confirmation in an increasingly unfavourable trade balance, and seemed to be finally clinched by the alarmist findings of the May Report, which was recklessly published at the psychological moment, when London was called upon to meet the full blast of the July crisis. No doubt this astonishing step was taken with the laudable intention of arousing the British public to the dangers of its internal situation; but unhappily the contents of the Report, and still more the lurid commentaries of the London press, were blazoned over the five continents at the very moment when foreigners were looking to their British holdings with growing anxiety. Thus the run became a rush. Gold began to drain away from the Bank of England in August as it had drained away from the Reichsbank in July, in spite of the seemingly incredible fact that Great Britain, so far from being impoverished like Germany, remained by far the greatest creditor country of the world. Her investments abroad bore a nominal value of £4,000 millions, and were calculated by the *Economist* as being actually worth £3,140 millions at the end of July. But all these immense resources could not be mobilised to stem the outflow of gold. The short-term loans frozen in central Europe were equally beyond recall. A political crisis supervened, and a National Government was proclaimed. Loans to the extent of £130,000,000 were obtained from France and the United States at high rates of interest. The budget was drastically

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balanced. The firmest intentions of maintaining the gold standard were announced and the perils of its abandonment startlingly depicted. But none of these things stopped the rot. The flight from the pound, perhaps artificially assisted by deliberate efforts abroad to weaken it for speculative or political purposes, could not be arrested. On September 21 the Bank of England was authorised by Act of Parliament to suspend gold payments. England had left the gold standard, of which she had always been the principal advocate and support.

The repercussions of this tremendous event throughout the world cannot yet be assessed. It may at once be noted, however, that they have not produced the anticipated cataclysm. Thanks to the innate good sense of the English people, fortified by a seasoned distrust of the prophecies of their politicians and their newspapers, there was no trace of panic. Business continued as usual. There was no scramble to withdraw money from the banks or to hoard bank notes in stockings. The pound bumped sedately down to 16s., and rested there placidly in spite of the alarms and excursions of a singularly unedifying election. By degrees the catastrophe which had been the subject of so much dark foreboding was seen to foreshadow substantial reliefs. It might provide the lever for lifting a burden of debt which had become intolerable to the taxpayer and a burden of costs which had long been weighing heavily on industry and agriculture. Though some prices would necessarily move upwards, it became quickly apparent that the devaluation of the Irish, Australian, Canadian, Indian and Scandinavian currencies would largely guarantee the urban population against any meteoric rise in the cost of living. The fall of the pound offered a better chance for the manufacturer and the farmer, a prospect of reducing unemployment and an automatic method of redressing the trade-balance. In a hopeful but determined spirit England soon began to adapt herself to the new economic order with a cheerful philosophy peculiarly her own.

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When the election gave it an opportunity of expressing its mind, the country did so in an altogether unmistakable manner. It was resolutely decided to play for safety until all danger was over, by entrusting government not to one party, but to the strongest combination that could be found, and by thus giving irrefutable evidence of solidarity to the world. The Government was given a mandate by the largest majority in English history to frame and carry out a national policy of reconstruction irrespective of all party creeds and shibboleths. The new Administration was charged to do the work, which the Coalition Government was empowered, but mostly failed to do, in the years following the war. It may be hoped that it will prove worthy of the nation's expectations, but in any case the imposing spectacle of such a large measure of national unity produced an immediate effect on the whole situation. Confidence in the future of Great Britain, which had been badly shaken in August, and profoundly disturbed in September after the naval strike, was restored at a blow on October 27. The fear that Bolshevism was about to triumph, which was widely and sincerely entertained in foreign circles, evaporated over-night. Not only was England's belief in herself renewed, but she once more became an element of stability in the general crisis instead of an element of doubt and uncertainty.

The climax having been produced by Great Britain's departure from the gold standard, a first and important step towards restoring the world's equilibrium was thus taken by Great Britain's energetic effort to put her own house in order. Its moral effects at home and abroad may do much to counteract the psychological influences making for panic and pessimism, which are perhaps the most ominous and intractable factor tending to aggravate the crisis everywhere. But, though this is an invaluable beginning, the actual financial and economic problems still remain to be solved. The external effects of England's departure from gold cannot yet be gauged with any

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certainty. The devaluation of foreign holdings in sterling will injure a large number of foreign individuals and some foreign governments. On the other hand, a larger number of individuals and of governments, whose bonds are in sterling, will be relieved of their burden to the extent of perhaps 20 per cent. Countries dependent to any considerable extent on exports to England, or on British tourists, will suffer considerably, unless they conform to the new pound, as some have already done, and others may be forced to do in the near future. All these consequences are obvious enough, but the commercial effects are much more difficult to appreciate. As long as wages do not rise, the British manufacturer will probably be able to sell his product abroad at a considerably lower figure, in spite of the added cost of most raw materials. British coal, textiles, steel and machinery will have an opportunity of recovering much of their lost ground in foreign markets. Conversely, the enhanced value of all imported articles will enable British goods to oust foreign produce in many branches of the home market. But exactly how far can this double process go ? If it had been initiated in normal times, it may well be supposed that British trade would have recovered something like its natural expansion, and at the same time its natural equilibrium, without great difficulty ; but can that be expected to happen in the depths of a particularly deep depression ? Will not our foreign customers try to keep as many of their own people employed as possible by excluding British goods by higher tariffs, especially those who can no longer sell their own goods in the British market ? In other words, will not they adopt the reasoning upon which the case for tariffs is based by its advocates in this country ? Canada has already set an example by levying duty on British goods at the old parity value of sterling. Protective measures are being discussed in Holland and Norway to meet the new British competition. Germany has in any case been compelled by her financial troubles to reduce all imports to the

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minimum. Other countries may follow suit. If trade had been plentiful, such defensive measures would have been much less likely; but the smaller its volume, the more strenuous will be the efforts of every country to retain as large a proportion as possible for its flagging industries. One of the most marked features of the crisis is the dwindling of international trade as a whole.

We are therefore brought back inevitably to the conclusion that nothing but a general recovery will restore British commerce to a satisfactory level of activity. Though its situation will in all probability be substantially improved by the devaluation of the pound, its full benefits cannot be reaped as long as the slump continues. A general tariff might stimulate for a time the production of certain goods for the home-market, but would undoubtedly provoke retaliation which would severely injure our export trades. However illogical the threats of the French Minister of Commerce may appear at a time when France is restricting imports by high duties and contracting quotas, there is little doubt that a British tariff would be met by French reprisals, and France would not be the only country to adopt such measures. Solid prosperity cannot be conjured back to British industry by any purely British action. Neither devaluation nor protection can weave the spell separately, still less in combination. Great Britain can only prosper as a great centre of international commerce and finance. Until, therefore, there is a world-wide recovery, amelioration of Great Britain's position can only be partial and inadequate. We must, therefore, turn our view outwards to estimate how far the prospects have altered for better or for worse during these three months, while London has been in the eye of the storm.

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II. THE INTERNATIONAL OUTLOOK

IN the last number of this review* it was pointed out that the basic causes of the depression were to be found in the series of maladjustments, economic, commercial, financial and political, under which the post-war world had laboured. The uneconomic manifestations of "economic nationalism," working through tariffs, subsidies and other protective measures, had choked the flow of international trade at a time when enormously increased productive capacity, both in industry and agriculture, made the free interchange of commodities between nations more than ever essential, if consumption was to keep pace with production. These evils tended to create a maldistribution of capital, which was greatly aggravated by the burden of war debts and reparations on the one hand, and by the failure of France and the United States, since 1929, to use their credit balances for maintaining and developing the economic activity of the countries most in need of money. As a result, political disturbances, largely due to impoverishment and unemployment, broke out in many of these countries, particularly in Germany, South America and India. These revolutionary movements still further reduced confidence and caused the purse strings of possible lenders to be drawn tighter than ever. Thus, by the time the German crisis occurred in July, the vicious circle was complete. The bankers blamed the governments and the governments blamed the bankers; but it was clear that the last word must rest with the statesmen. No financial action could any longer avail to restore the movement of money, raise commodity prices and start the upward trend towards recovery. None of these things was possible until the fears of internal and

* See THE ROUND TABLE, No. 84, September 1931, p. 769.

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international upheavals could be allayed, and that meant little less than a complete revision of the war settlement, under which the world had been uneasily ploughing its way forward since 1918, and the establishment of effective international co-operation alike in the political, financial and commercial fields.

The correctness of this analysis was largely confirmed by the report* of the powerful committee set up by the Bank for International Settlements under the chairmanship of Mr. Albert H. Wiggin of the Chase National Bank. They stated their view that without the restoration of Germany to economic health, there could be no escape from the bog of falling prices and shrinking confidence for the rest of the world. But for Germany's recovery, two conditions were essential, the removal of political dangers and the lightening of her burden of indebtedness.

The body of the world's commerce, whose vitality is already low, has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished, but only if the governments of the world will realise the responsibility which rests upon them, and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the *sine qua non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

Taking the state of Germany as their text, the Bankers' Committee further insisted on two general conditions without which there can be no expectation that the depression will pass. First, the normal process of investment must be resumed "with a well-defined economic purpose in view—namely, an increase in the purchasing power of the world." Secondly, the elimination of the present

* Signed on August 18.

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contradictory state of affairs, which "involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods."

The prospects of a general recovery, with which the recovery of Great Britain is indissolubly linked, may be judged by the prospects of this simple but formidable programme, laid down by ten men representing the banking systems of the ten strongest financial countries. Incidentally, it may be remarked in passing, that it is a real advance that there should now be international machinery which permits of common principles of financial policy being worked out and authoritatively stated by leading financiers drawn not only from Europe, but also from the United States and Japan; further, that even the formulation of such a policy is a light in the prevailing darkness. Unfortunately, its execution does not, in the main, rest with those who drew it up. The primary condition for its success is action by governments to remove the political malaise, from which ultimately flow the hesitancy of capital to perform its ordinary functions, and consequentially the general shrinkage of purchasing power. It is as true now as three months ago that the main exit from the *impasse* lies through the political door. The international situation must therefore claim first consideration in any estimate of the hopes of economic revival.

At a first glance, it cannot be said that the outlook has changed substantially for the better between July and October. The British crisis had the effect of seriously weakening for the time being, one of the most powerful influences for stability and reconciliation in Europe. Whatever its faults in other respects, the Labour Government had exerted a steady and successful pressure in the direction of peace and disarmament. Its efficacy may readily be judged by the exultation which greeted Mr. Henderson's downfall in those French circles which have been most actively hostile to a conciliatory attitude towards

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Germany and to the Disarmament Conference. No doubt Mr. MacDonald had no intention of altering the general policy, which he had pursued as Prime Minister for two years, but for a time, British influence abroad was paralysed by the internal crisis. The new Foreign Secretary was so deeply occupied with the financial and political problems of the moment, that he had little time to devote to the broad questions of international policy, and was unable to attend the Assembly of the League. During those weeks, things did not stand still, and the disappointing results of the discussions at Geneva were ascribed by many to the absence of a clear and authoritative lead from Great Britain. These temporary incapacities have now been removed, and this country is once more in a position to play a leading rôle in world affairs. All parties are united as to the broad outlines of our foreign policy. Though they may not be all equally fervent in their advocacy of disarmament, or equally aware of England's vital interest in securing continental stability, the false antithesis between imperial development and the cultivation of our European markets is not likely to obscure the tremendous issues which have now sprung to life, and which are bound to affect our national future profoundly. If there is no *rapprochement* between France and Germany there will be steadily growing estrangement. If there is no first step towards general disarmament next year, the signal will have been given for general armament. The result of either or both of these eventualities must be to aggravate the existing nervous apprehension, to postpone complete economic recovery indefinitely, and in all probability to prepare a new conflagration against which no cloak of isolation will afford any certain protection to these islands. At such a momentous time, British statesmanship may be called upon to play a decisive part. The exaggerated conclusions drawn abroad as to the solidity of England's financial power are now being quickly dissipated. The abandonment of the gold standard naturally produced a

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world-wide shock, but comprehension is now dawning abroad that, so far from the sensational anticipations of England's decline and ultimate fall being realised, the revaluation of the pound may prove to be the first tonic needed to restore British commercial and financial vitality, which has been so conspicuously subnormal ever since the war. The time is therefore propitious for re-establishing complete confidence in England's future action by demonstrating once more her capacity for leadership in international affairs.

While the prospect was momentarily darkened by the temporary relaxation of British effort, it was brightened by the gradual emergence of the United States from isolation. The serious position of their industrial and financial system brought forcibly home to the American public that they too could not look for recovery by their own endeavours alone. Prices and production continued to fall; unemployment continued to rise. The budget deficit for the year ended June 30, 1931, amounted to the formidable sum of \$516,000,000, after deducting sinking fund payments, while the outstanding public debt had increased by \$616,000,000.* Nearly 3,000 banks closed their doors, with the result that public confidence was undermined and withdrawals took place on an alarming scale. It was said that the only flourishing industry in the United States was the manufacture of safes and cash-boxes. These events convinced not only the financiers, who probably needed no convincing, but also the White House, that the American Government must throw its weight into the scales in order to promote political and financial stability in Europe, without which there could be no solution of its own troubles before the Presidential Election next autumn. We have accordingly witnessed three very notable events; first, the participation of an American delegate in the discussion of the proposed truce in armaments in the Third Committee of the Assembly of the League; secondly, the presence of

* *The Economist*, August 1, 1931, p. 28.

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an American representative at the sittings of the Council called to deal with the Sino-Japanese quarrel; and, thirdly, the visit of M. Laval to Washington at the invitation of Mr. Hoover, to be followed by a similar visit from Signor Grandi. There is no mistaking the general purport of these things. While it would be a gross error to suppose that the United States was on the point of joining the League or of taking sides in European politics, nevertheless her attitude of detachment and self-imposed solitude has come to an end. Everyone who has the cause of peace and disarmament at heart must heartily welcome this change, for without American aid no political or financial resettlement is possible.

But what of France and Germany, who still constitute the hard core of the problem? As Lord Cecil has said, the establishment of harmonious relations between them would at once remove 75 per cent. of our troubles. The basic condition of recovery postulated by the Bâle bankers would be fulfilled, and the world would begin to breathe more freely. Unfortunately, there are few reassuring signs to be discerned. Germany's position remains as precarious as ever.* Another extension of her short-term credits has inevitably been granted, but at the time of writing no real step has been taken to put German finances on a sound footing. The French visit to Washington has disappointed the expectation that it might produce some joint plan for scaling down debts and reparations. Failing this, Germany will continue to hang like a sword of Damocles over Europe. She is attempting to meet her foreign obligations by the only method open to her, namely, drastic restriction of imports and stimulation of exports at low prices. This means widespread unemployment and depressed standards of living within the country, the shrinkage of the German market for the goods of other countries, and the intense competition of German goods with those of other countries abroad. It is characteristic that during the first six months

* For an account of the situation in Germany, see page 71.

The International Outlook

of this year our exports to Germany declined by 50 per cent. as compared with the same period in 1929, while British imports from Germany diminished by about 10 per cent. only. The British experience is that of a number of other countries. Germany is buying a favourable trade balance as the only means of paying her debts at the price of severe privation, which has rendered a critical internal situation still more critical. Parliamentary institutions have been practically suspended since Dr. Brüning obtained a blanket authority to govern by decree by a bare majority of 25. The Hitlerites and the Communists are still gaining ground at the expense of the parties of moderation. Everyone is asking the question whether the Government can see the winter through without an upheaval.

The answer probably lies with France, but as yet there has been little indication of any change in temper there. The Berlin visit of M. Laval and M. Briand produced a slight relaxation of tension, but no tangible result, except the creation of a joint industrial commission, which cannot approach any of the fundamental problems. The momentary improvement of French feeling was quickly obliterated by the Nationalist demonstration at Harzburg, which revived French fears and distrust in all their intensity. It is true that the death of the Customs Union with Austria has removed one bone of contention; but as its demise was due to French financial pressure, its burial has been an added cause of bitterness in Germany without creating any sense of greater confidence in France. The burning questions of reparations and disarmament have not been touched, to say nothing of the wider problems of Treaty revision. On all these matters the attitude of the French Government and of the bulk of French opinion is still apparently adamant. M. Laval's declarations at Washington, the speeches of M. Maginot, the attitude of the French delegation to the Italian proposal for a truce in armaments at Geneva, all seem to suggest that France is

The World and the Crisis

disposed to rely on her military and financial power to maintain the *status quo* at any cost, even if it involves a revolution in Germany. The only circumstance which might apparently modify this intransigent position would be the consent of the United States to enter into a consultative pact, or at least to agree to withhold all support from a nation declared by the League to be the aggressor. Without some such reassurance it is difficult to see how French apprehensions are to be sufficiently allayed to allow of any effective measure of disarmament, through which the main road to restored confidence now lies, for without it there can be no real understanding between France and Germany. It might be thought that, after co-operating with the League in dealing with the Far Eastern dispute, Mr. Hoover would consider that such a request did not greatly exceed the limits which American policy had already reached; but Senator Borah's denunciation of military or economic sanctions is not of good omen. The League's intervention between China and Japan has now assumed capital importance for the future not only of the East, but also of the West. Every possible moral pressure has been exercised by the great nations of the world, jointly and severally, upon Japan. If the Japanese succeed in demonstrating that a country resolutely determined on aggression can defy international public opinion with impunity, the consequences will be far-reaching. The thesis that forcible measures for the prevention of war are unjustifiable because they are unnecessary, widely held in America and in some circles in England, is now being put to a crucial test. If the League fails to induce the retirement of the Japanese troops, the French argument that there can be no disarmament without an effective international force will be greatly strengthened, and the whole system of mutual guarantees dangerously weakened. The fate of the Disarmament Conference now largely hinges on the success or failure of the Council, reinforced by the United States, to prevent an outbreak of hostilities in Manchuria.

The Conditions of Recovery

III. THE CONDITIONS OF RECOVERY

FROM the foregoing survey it may seem that the political outlook is darker than ever; and yet there are some silver linings which may be detected in the clouds. The very gravity of the economic crisis, to which political uncertainties have so largely contributed, is in its turn producing some favourable reactions on politics. There is hardly a country in the world which is not confronted with an actual or prospective budget deficit. By the inevitable operation of economic laws France is now threatened, as England was six months ago, with a wide gap between revenue and expenditure coupled with an increasingly unfavourable trade balance. Reference has already been made to the United States. As commercial activity declines, national revenues are shrinking everywhere. Fresh sacrifices are demanded of the taxpayer, which his own dwindling income makes him progressively unable to meet without further contracting the volume of purchasing power, and thus further slowing down the turnover of business. Even the drastic reduction of salaries, wages and social services, with all the risks which it entails, offers no escape from this vicious circle. It can retard the deficitary process, but cannot arrest it. In these menacing circumstances governments are being forced, however reluctantly, to turn their attention to the real remedies. It is significant that Signor Mussolini, with characteristic directness, has openly demanded not only disarmament and the reduction of war debts and reparations, but even the revision of the Treaties. It is equally noticeable that Mr. Hoover has already curtailed naval expenditure and has now found a powerful counterpoise to the advocates of a bigger navy in the adversaries of higher taxation, a far more numerous body whose electoral power is considerable. It may be wondered whether M. Laval,

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who will not sacrifice a single battalion to obtain relief from war debts, may not consider the sacrifice as a preferable alternative to increasing the burden of the taxpayer further.

Finally, there is the international monetary problem to be faced. As long as the pound remains divorced from the gold standard, a major influence will be at work in opposition to the re-establishment of settled conditions. The French and American Governments have agreed to maintain the gold standard at all costs; but can it be permanently maintained unless the pound is stabilised, and can the pound be stabilised unless there is a much greater measure of security for trade and investment abroad than exists at this moment? There is no reason to suppose that the possible consequences of the devaluation of sterling have been by any means exhausted. Both as banker and trader, Great Britain plays so preponderant a part in the world's economic affairs that the instability of her currency is a menace to everyone. She was forced to abandon the gold standard mainly on account of its failure to operate normally under post-war conditions, for reasons which were expounded with prophetic clearness in the Macmillan Report. Until there is some effective international arrangement to ensure that it will function less capriciously in future, it is hard to see how the pound can be safely restabilised in relation to the franc and the dollar. It is on this point that all parties in England are united in demanding an international conference to work out a fresh monetary basis for the world's commercial transactions. There is still unremitting hostility to this idea in French and, to a lesser extent, in American circles, where the adoration of gold is still the orthodox religion. Only as the god's fallibility is exposed by events, will it be seen to be necessary to create an international organisation, not for the blind worship of gold but for its rational utilisation. That point has not yet been reached. No country is immune from the fatal effects of the complete dislocation

The Conditions of Recovery

of the world's economic machinery, but its operation only becomes slowly perceptible. Until the measures needed to counter it are generally understood, a return to the gold standard would be hazardous. In the meanwhile, it may be worth considering whether some arrangement cannot be worked out for fixing the exchange-rates between the currencies of the Empire as a first step towards general stability. Such a move might have important consequences.

The fall of the pound from its pinnacle marked the culminating point in the logical evolution of the crisis. It must either precipitate a general catastrophe or compel the beginnings of a concerted and intelligent effort to build a new and more orderly world, based on the recognition of the mutual rights and essential inter-dependence of nations. The process will be long and difficult. It will require concessions and adjustments in the political field, demanding a wisdom and moderation for which the present generation has not been conspicuous. It will require the re-enforcement of the League machinery to render peace more secure than it is yet. It will also require the application of the bankers' programme. As long as the competition in tariffs continues, there is no hope either of profitable business or of financial equilibrium. The free movement of goods is now hamstrung by national obstacles raised in the vain hope of achieving what no country can ever achieve—a creditor position coupled with excess of visible exports over imports; or the retention of the home market in an increasing degree for the domestic farmer and manufacturer coupled with the maintenance of a flourishing export trade. These simple yet difficult truths have still to be thoroughly digested, both in Europe and America, before any permanent bulwarks can be erected against future flood-tides of depression. As the bankers put it, "financial remedies alone will be powerless to restore the world's economic prosperity, unless there is a radical change in this policy of obstruction, and international commerce—on which depends the progress of

The World and the Crisis

civilisation—is allowed to resume its natural development.' The choice is clear enough. The world-wide economic machine which the twentieth century has brought into being cannot be worked on principles of unlimited national egoism without regard to the general interests of the world's economic and political equilibrium. The present crisis has been brought about, because those interests have been ignored in certain countries, and will not be completely lifted until there is general agreement that they must be given paramount consideration.

The need for a thorough review of the international elements in the crisis is particularly urgent at a moment when signs of business revival are again becoming faintly apparent. The run on the banks in the United States seems to have been brought to a halt by Mr. Hoover's guarantee fund. The readjustment of British costs by the return of the pound to an economic level is reducing the burden of unemployment, reopening channels for investment and correcting the balance of British trade. The rise in the price of wheat, if maintained, promises to restore the purchasing power of the farmer, particularly in Canada and the United States. The upward movement of silver may reopen the markets of the East. If these favourable symptoms are encouraged by an attempt to remove the causes of international friction and maladjustment, they may develop into evidence of approaching convalescence. If, on the other hand, nothing is done to cure the international evils, recovery may be again nipped in the bud as it was in the early summer. Mr. Hoover and M. Laval have already publicly recognised that the real task of the Disarmament Conference is the restoration of peace and stability and have agreed to co-operate to that end. But the political cannot be separated from the monetary problem. Both must be tackled, either simultaneously or conjointly. To wait until February before anything is done, or even begun, involves the risk of fresh upheavals in central Europe, which may destroy the hopes of recovery

The Conditions of Recovery

now making themselves felt. It is surely not beyond the means of the Government of this country, armed with such an overwhelming mandate, to take the initiative in seeking a new foundation for the world's credit and banking system, which in spite of all the vicissitudes of the last month is still centred in the City of London.

RUSSIAN REALITIES : THE PROTESTANT RELIGION

I. THE RISE OF PROTESTANTISM

NOTHING so clearly shows the rapidity with which the old world is disappearing in Soviet Russia as the state of religion. On my first visit in 1923 I found atheism already rampant, especially among the young. It was, however, still possible to make out a case for religion, and even for maintaining its vitality. In town and village alike the church was still a conspicuous object, and the Greek Orthodox priest, with his flowing locks and his dangling gaberdine, was a no less conspicuous figure in local society. Attendance at services had, it is true, fallen off woefully, but there were still congregations, and few churches—less than two per cent. of the whole number—had closed. Country girls were seldom willing to be married except by the priest, and although masses of peasants had given up going to church, they went on having their babies christened, and they always sent for the priest when there was a funeral. New religious sects had even sprung up—Protestantism especially seemed to be in for a new lease of life. In spite of the Revolution then religion was, on the surface, still flourishing.

How utterly different is the scene to-day ! In the towns the church is no longer a landmark. No new ones have been built, and many of the old ones have either been put to new uses or pulled down to make room for other build-

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Where is Europe Going? I

The Rise of Protestantism

ings. There are, no doubt, enough Orthodox places of worship still functioning to accommodate the ever-dwindling number of the faithful, but the congregations are too poor to keep them in repair, and unless something unforeseen happens, they will soon have to be taken over by the State, if only to save them from collapse. The priest is rapidly disappearing, and the few who are still about are a sorry sight—old, shabby and decrepit. They are dying out and there is no one to take their place. In the course of my wanderings this year I did not come across a single young priest. The village girls no longer insist on being married in church, and christenings and religious funerals are going out of fashion. Look in any direction you like, you will find nothing but decay in the Greek Orthodox Church. All the old religions, indeed, are succumbing to the onslaught of the Revolution. Mahomedans, Roman Catholics and Jews of the older generation cling more tenaciously to the faith of their fathers, but their future is also dark, for they too are losing their young people.

To this universal *débâcle* I came across only one exception—the so-called sects. I am speaking not of the mystical but of the rationalistic sects. They consist of common folk, chiefly peasants or labourers who, dissatisfied with the shortcomings of the old church, had, sometimes with the aid of some outside preacher, sometimes entirely on their personal initiative, set up religions of their own. Two outstanding examples are the Baptists and the Evangelical Christians, who between them have several million followers. These are the Russian Protestants, and they have contributed a stirring chapter to the religious history of their country—even, one might add, to the history of the Revolution itself.

The career of Protestantism in the time of the Czars was a chequered one. It had its birth in martyrdom. It had no sooner made its appearance and shown itself capable of attracting converts than the Greek Church began to look upon it as an enemy and a rival, and to try

Russian Realities : The Protestant Religion

its best, with the help of the old government, to suppress it. But Protestantism would not be suppressed. It thrived in spite of persecution. The Protestant flocks were primitive folk, just as Russia herself was a primitive land. Their faith, indeed, retained a good deal of the character of early Christianity. Its survival was in no sense due to organisation, or to the union of the different groups, but simply to the devotion of the individual. It saw in religion not merely ceremonial, but a way of life, a body of principles to guide man in his relations with his fellow-men and with the outside world. The Protestants read the Bible omnivorously, read, pondered and absorbed it. They taught each other to read so that they should all be able to study Holy Writ. Those who could not read had it read and expounded to them. Unlike the Greek Church, Russian Protestantism paid more attention to the meaning of religion than to its forms. Puritan to the core, it banned the use of tobacco, spirits, violence, abusive language, dancing, the theatre and other indulgences of the flesh. Yet its votaries were no ascetics. They did not shrink from what they regarded as legitimate earthly pleasures, and from their foreign brethren, chiefly Germans, they learnt modern methods of agriculture and the virtues of thrift, cleanliness and sobriety. They became, indeed, the most progressive farmers in Russia. "Sectarians (the reference was to the Protestants)," writes a well-known Bolshevik atheist in a pamphlet attacking all religions alike, "value highly literature on natural science and especially on modern agriculture." Coming from an enemy, these words are significant. In the course of my own travels I found the land of the Baptists and Evangelical Christians better worked than that of their Orthodox neighbours. They also lived a cleaner, more wholesome life and were better educated.

Then came the Revolution, and with it freedom for the sects. Because their members were mainly peasants and proletarians, who had been persecuted in the old days,

The Rise of Protestantism

they were regarded by the Communists as wards of the Revolution and accorded rights and privileges such as they had never enjoyed before. The Bolsheviks were at that time trying to break the power of the Orthodox Church, and, following their usual tactics of dividing the enemy's forces, they were only too eager to enlist the help of the Protestants in discrediting Orthodoxy with the masses. In 1924 I found, in city after city and village after village, the Protestants out in the open. Everywhere in the bazaars Evangelical and Baptist preachers were holding forth on the meaning of their faith, unmolested either by Soviets or Communists. In their local and national conferences both Baptists and Evangelicals passed resolutions thanking the Soviets for the consideration shown for their rights. In Moscow Seventh Day Adventists were allowed to hold a convention in the Third House of the Soviets itself. In Tzaritzin, now Stalingrad, the great industrial city on the Volga, and one of the revolutionary centres of southern Russia, a Baptist minister told me that the local Soviet was allowing him the free use of the city theatre on Sunday afternoons. He invited me home to meet his family and some of his flock, and as we sat round eating cakes and jam and drinking countless glasses of tea, his friends and he spoke with glowing satisfaction of the new hope that had come to their people in Russia. At last there was nothing to interfere with the free exercise of their religion ; Orthodox priests no longer spied on them, gendarmes no longer hounded them, and cossacks no longer dragged them to gaol, as in the days of the Czar. Baptists and Evangelicals were both quick to use their new-found liberty to emphasise the social side of their faith, which, on the surface at all events, was in harmony with some of the social objects of the Revolution. They formed clubs, co-operatives and mutual-aid societies ; they encouraged music and sociability, and they immediately began to attract people. What they offered seemed to be something quite new in religion—philosophy, good

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fellowship, kindness, practical help, a new social purpose, which, as already suggested, was in some ways akin to that of the Revolution—so at least it seemed at the time. Even the young, with all their distractions, found it worth their while to listen to the new word, and the Protestants did their best to win their ear. The law did not allow them to hold religious classes for pupils under eighteen, but it did not interfere with the organisation of clubs, picnics, festivals, musical gatherings, lectures and athletics. The young people indeed formed their own organisations—the Baptomol, for Baptist youth, and the Christomol, for Christian youth; names with an obvious family likeness to that of the Communist youth organisation, the Komosol, an instance of the open way in which the Protestants copied the social technique of the Revolution. In their dealings with the young they always laid stress upon the importance of cultivating good habits—self-control, politeness, industry, chivalry to women, respect for elders, and friendliness towards strangers. So much so, indeed, that the Soviet press would now and then chide the Young Communists for lagging behind the Protestants in this respect.

And so it came about—a sufficiently remarkable phenomenon—that, while all the other religions in Russia were losing ground with the new generation, the Protestants were not only holding their own, but attracting converts. No wonder that Bukharin, at a conference five years ago, warned Young Communists that, unless they got busy, the Protestants would have more influence on Russian youth than they had.

II. A CHANGE OF ATTITUDE

WHEN the Bolsheviks realised how influential Protestantism was growing, they became alarmed. From one end of the country to the other one began to hear talk about the new enemy within the gates—an enemy which

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seemed, like the Phoenix, to have sprung out of the ashes of the old religions. A new campaign was at once set on foot. What the policy of the Bolsheviks would have been if the New Economic Policy had been continued, it is hard to say. But with the leftward swing of the Revolution, their hostility to Protestantism was bound to grow, for, from their standpoint, it had now become the chief counter-revolutionary force in the country. Nothing indeed so eloquently gives the lie to the plea, which sentimental liberals often put forward, that Russian atheism is merely a reaction from the degraded condition of the old Church, as the new attitude towards the Protestants. It has changed from one of benevolent tolerance to unmitigated enmity. In cartoons and pamphlets the Protestant now figures alongside of the other active enemies of the Revolution—the “damager,” the priest, the kulak, the bootlegger, and the rest.

What, then, has caused this change? To find the answer we must examine the fundamental and irreconcilable principles to which the clash between Bolshevik and Protestant in their approach to the problems of life is traceable. Certain features in the community life of the Russian Protestants would at first glance suggest that, both in their theology and in their social views, they are modern and progressive. Yet, nowhere in the world could one find a more primitively fundamentalist type of Protestantism. The Bible is its sole source of inspiration, its guide in thought and action, and anything which seems to it subversive of Bible teaching it rejects as untrue and unworthy. This by itself was sufficient to bring upon it the wrath of the Bolshevik. Russian Protestantism has no more use for evolution than American fundamentalism has. To the Bolshevik, on the other hand, science is the law of life, and evolution its chief glory. Nor could the Bolshevik remain indifferent to the uncompromising puritanism of Russian Protestantism. It forbids divorce, abortion and birth control; it looks upon the theatre as

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 something degrading, and, in certain spheres, it encourages the segregation of the sexes. Fundamentalism versus science was the first issue over which Bolshevism and Protestantism crossed swords.

Dogmatism versus flexibility was the second. The Bolshevik charge against religion, especially a religion of so fundamentalist a kind as Russian Protestantism, is that it is rooted in dogma. The fixity of purpose which such dogmatism implies they consider to be incompatible with both the principles and the practice of the Revolution. It is useless to tell them that Marxism and Leninism have, in their hands, become just as rigid as anything to be found in fundamentalism. Their reply is that this is not so. Change, on the contrary, is, they say, the very essence of Marxism, which at best is itself merely a way of approach, an instrument of guidance. They love to quote Karl Marx's answer, when someone once asked him what was his chief diversion : "To subject everything to doubt." Lenin himself spoke of Marxism as a "guide to action." For the Bolshevik it is dynamic, something that never stands still, and Communism, though a future, is by no means the final, stage in human development. They consider that this attitude is at the opposite pole to the dogmatism of Protestantism as they see it.

Reverence for authority supplies a third bone of contention. It is true that the authority to which the Protestant looks is not an earthly authority. But for the Bolshevik it is enough that it affects life and conduct. For him the very act of worship implies a recognition of this authority, and is a confession of man's weakness in its presence. Besides, the authority itself is derived from a self-contained, arbitrary and exclusive power which is represented upon earth by a group of its own—clergy and prophets. In the eyes of the Bolshevik this group itself constitutes an aristocracy, and expresses a will which is not that of the masses. The masses, indeed, have themselves to honour and obey this aristocracy. The system is thus a duplication

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of the very one which obtains under a capitalist régime ; it represents rule from above instead of rule from below, mastery on the one side, and subordination on the other. At the all-Russian atheist congress in Moscow in June last year Bukharin dwelt at length on this phase of the quarrel between Bolshevism and Protestantism.

It may be said that the Bolshevik dictatorship is the most hide-bound authority on earth ; but to this the Bolshevik replies that it is only a temporary phase, incidental to the transition from an individualist to a collectivist state of society, and destined, like the State itself, the instrument through which the dictatorship exercises its will, to disappear in due course. Eventually there will, they say, be no ruling class, indeed no classes at all. Humanity will then consist only of producers, and the real power will be vested in the masses, with nothing above them—neither God, angels, nor church—to keep them in a state of subjection. All authority, initiative and creative energy will derive from them. And so it comes about that the fight against Protestant reverence for authority is, in Bolshevik eyes, a fight against the very evil which lies at the root of the civilisation that they are determined to destroy. The Christian doctrine of toleration, too, a dead letter in the Greek Orthodox Church, but dear to the heart of Russian Protestantism, is particularly objectionable to the Bolshevik ; for, under it, man always comes first. Wherever he is concerned, social origin, economic pursuits, and political allegiance take a second place. Whatever the circumstances, he remains an object deserving of pity and forgiveness and the respect of his fellow-men. This doctrine is the negation of the theory which underlies the class war, and to the Bolshevik, immersed in his five years plan and his struggle to reconstruct society on a non-class basis, it is naturally anathema. For if demands respect for the kulak, the nepman, the counter-revolutionary, the "damager," and others whose extermination the Bolshevik deems essential. The sworn enemy of individualism, and bent on its destruction,

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he has nothing but contempt for a religion which extends a welcome to the wealthy and the needy alike. The time for toleration will come, he says, when his new system of society is established, but to-day, while he is still engaged in a desperate fight to ensure its realisation, Christian toleration seems to him to be just social and political suicide.

The clannish tendencies of Russian Protestantism also provoke the hostility of the Bolshevik. Evangelical Christians and Baptists speak of the members of their own folds as believers, and of others as unbelievers. Though bent on making converts, they nevertheless keep very much to themselves in their social and charitable work—indeed in all their activities. They address one another as brother and sister. Even more than their co-religionists in foreign countries, they look upon themselves as a brotherhood complete in itself. But to the Bolshevik, with his exaggerated suspicion of anything different to himself, this means separatism, detachment from the masses, an attempt in fact to break up the unity of his new society. Nor does it give him pleasure to see his own trade unions break up into smaller units, and turn aside to pursue what he regards as extraneous aims. He remembers how certain groups of miners in the Don basin, and of textile workers in Ivanovo, and of builders in Moscow became converts to the Protestant faith.

He is afraid, too, of the Protestant church becoming a city of refuge for the counter-revolution, and it is this which keeps the edge of Communist hostility so keen. The church, after all, was the only organisation allowed to hold meetings of a non-revolutionary nature. It is true that there is nothing in its form of worship which in itself constitutes a threat to the Revolution ; but—so the Bolshevik reasons—political plots might be hatched under the cloak of religion, and if Protestantism were to go on spreading, it might in time attract counter-revolutionary elements, who would thus find a place where they could meet and co-ordinate their efforts ready to hand. Foreign help, too,

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might be forthcoming in the guise of religious contributions, and the church organisation would make it easy to get into touch with foreign conspirators. To the outsider, these fears may seem exaggerated; but to the out and out revolutionary they are as natural as his faith in Marx and Lenin.

The pacifist tendencies of Russian Protestantism add further fuel to Bolshevik rancour. It is true that neither the Baptists nor the Evangelical Christians have formally adopted pacifism. It is for them an open question which each individual must decide according to the dictates of his own conscience. But the trend of their teaching is all in that direction. The Bolshevik, it must be remembered, is obsessed by fear of foreign invasion. His mood, his outlook and his behaviour all take their colour more from this fear than from any other single factor. This is not the place for a discussion of the cause of this fear or how far it is justified, but its existence is a dominant element in the present day situation. It accounts for the militant spirit, the preparedness campaign, the incessant parades of men and women with rifles on their backs and the warnings to the people to get ready at all costs to meet the attack from outside. In the summer of 1931 there was a marked abatement of this fear, but some untoward circumstance may at any time fan it once more into flame. It is inevitable in these circumstances that a movement like pacifism, which might seriously interfere with his preparedness for war should be regarded by the Bolshevik as a direct menace to his safety.

Lastly, there is the economic situation, and here again one finds the Bolshevik and the Protestant at loggerheads. Bolshevism spells death to private property—the Bolshevik is determined to wipe it out. The Protestant's view is different. He may not believe in piling up riches, but neither Baptist nor Evangelical Christian condemns the institution of private property in itself. Their cartels and co-operative establishments were among the most successful

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 in Russia. In Moscow the Evangelicals used to run a number of vegetarian restaurants which were among the best eating places in the city ; but being outside State control, they might, from the Communist standpoint, just as well have been private concerns owned by a private individual. Protestant peasants too, as has already been pointed out, were among the thriftiest in Russia, a result due to their personal habits and to their higher cultural standing. But it is only a truism to say that the more prosperous the farmer the more hostile his attitude is likely to be to the collectivisation of the land. Besides, the Protestant knows well enough that on the collective farm he will find a tense revolutionary atmosphere. The principles of the Revolution with regard to family, religion and the relationship of man to man and of man to woman—principles which he could never accept—would be assiduously propagated. He would not be stopped practising his religion in his own manner, but in the course of his every day life he would always be coming up against the Revolution and its requirements. His children would have to attend the nurseries, the kindergartens and the schools, and would soon slip away from their parents' influence. If the Protestants had been allowed to form their own collective farms they might have acquiesced in the new movement, but that was out of the question. A clash, and a bitter one, was therefore unavoidable over this particular issue.

III. THE COUP DE GRÂCE

WITH such divergent views on questions of principle and practice, both in the social and the economic sphere, it was only natural that Protestantism, as soon as its exceptional capacity for rapid growth had become evident, should attract the active hostility of the Bolsheviks. Here was a new influence in their midst, spreading through farm and factory alike—the very citadels of their

The Coup de Grâce

power—an influence quite unlike that of the old Orthodox Church; no mere cloak this of antique formalism sure to split from top to bottom before the first gust of modern ideas, but a new spirit, a body of ideas which had sunk deep into the hearts of those affected. No wonder that Lenin's widow pronounced the Russian Protestant a greater menace to the Revolution than Orthodoxy, and Bolsheviks all over the country echoed her sentiments.

In their attack, propaganda has as usual played its part. But a still more deadly blow was the law of April 1929, a law which applies to all religious bodies alike, but which hits the Protestants harder than any of the others. For although the law re-asserts the principle that religious confession is free and the individual has the right to worship in whatever way he chooses, it does not, as the old law did, permit religious and anti-religious propaganda alike; it only allows anti-religious propaganda. This, of course, has put an end to missionary work and to preaching in bazaars and other places than officially recognised places of worship. There is a further provision which bars clergymen from ministering to more than one congregation at a time, which therefore stops Baptist and Evangelical pastors from visiting other congregations than their own. But from the point of view of the Protestant the unkindest cut of all was the revival and amplification of an old law which prohibited a religious body from exercising so-called "administrative functions." In the early years of the Revolution, for reasons already explained, the Soviets refrained from applying this law to the Protestants. Had they done so, Protestant social work would have been impossible, for an organisation which has no right to exercise administrative functions obviously cannot take part in social work. But the new law does more than put a ban on such functions. It specifically prohibits religious bodies from pursuing any activities whatever except worship. It permits freedom of worship and nothing else. This puts an end to co-operatives, club houses, and mutual aid societies—the very

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things that have helped the Protestants to gain their hold upon the masses. At the same time the spread of nurseries and kindergartens and the introduction of universal education is, as I have pointed out, subjecting Protestant children to a thorough process of sovietisation. Some of them will no doubt be saved by their parents for their faith, but only some.

GERMANY IN THE STORM

(FROM A GERMAN PEN)

THE crisis is a world-wide one, but the student who wishes to understand every aspect of it, the economic, the political, and even the less studied psychological side, cannot do better than turn to Germany. Here he will find everything—bankruptcies on a scale which puts those of other countries in the shade ; efforts of unrivalled brilliance to modernise and rationalise industry, and to adapt it to the changed conditions of the world ; gigantic conflicts in the region of ideas—the duel, for instance, between Dr. Brüning and Herr Hitler. If he wants a striking instance of a *reductio ad absurdum*, the consequences of certain Articles in the Peace Treaties which were formulated in those days of happy illusion at Versailles will strike him in the eyes ; and, lastly, where else could one find the ridiculous results of a badly managed distribution of international gold and capital more perfectly illustrated ?

The consequences of the Great War have visited every country in varying degree, but they all seem to have converged on Germany. She has, it is true, great advantages ; a thoroughly efficient industrial equipment, and a highly trained population of workers, the majority of whom, though insistent upon drastic reforms, are firmly resolved to re-establish their country on its traditional capitalist basis—they have no use for Bolshevik experiments. Germany's interests are indeed indistinguishable from those of Great Britain and other countries with a similar system ; but, left to herself and denied international support and

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encouragement, her condition is bound to become desperate, and through her open wounds the blood of the whole Western world will continue to ebb.

I. RECONSTRUCTION AND DISILLUSIONMENT

THE economic and financial effects of the war were catastrophic—like those of an earthquake—and the period of inflation which followed brought in its train a total “revaluation of all values.” Yet Germany, when she emerged from these catastrophes, made a tremendous effort to re-establish herself on a sound basis—any other course would have been unthinkable for such an orderly, disciplined nation. In those early days, moreover, the average German was sure that everything would come right if only he could get his economic and financial machinery working at full speed. Were not prosperity, work and profits the best stepping-stone to a healthy national life? People’s eyes were at that time fixed on America—happy, prosperous America—the country without unemployed and “without a social problem.” It might take time, the German argued, but in any case the best way of catching up the nations which had won the war was to become strong again in an economic sense.

So Germany set to work. She reorganised her industries from top to bottom. She invested hundreds of millions in them, most of it borrowed from abroad. Rationalisation and efficiency: these were her aim. There were combinations of companies; colossal industrial and financial organisations were established; new plant of the most up-to-date kind was installed, and expensive—even luxurious—offices and government and municipal buildings were erected. The cities followed the lead of industry, and the trade unions and other bodies did the same. There was on almost every side vitality and hope.

And it was needed. A great deal had to be done to make up for lost ground, not only to replace old-fashioned

Reconstruction and Disillusionment

concerns no longer capable of holding their own against competition, but to fill the gap left by the loss of the industries which went with the territories of which the Treaty of Versailles deprived Germany. As in England, reconstruction was facilitated by new inventions and developments. This was especially the case in the chemical and electrical industries, but others, such as artificial silk, lignite, nitrogen, potash and motor-cars also benefited. This work of replacement and expansion was carried out energetically and efficiently, and our industries had a good deal of luck, especially in the matter of competitive wages.

Things, indeed, went well, and in a few years' time, except in the old middle class, whose standard of life was still sinking, there was not only a considerable amount of individual prosperity, but also unmistakable signs of progress on the part of the community as a whole. No less than ten milliards of reichsmarks were deposited by millions of small people in the savings banks, and only a few years after the ruinous inflation period the policies issued by life insurance companies were more numerous and for larger amounts than before the war. At the same time the Hapag* and the Norddeutscher Lloyd had constructed a new mercantile marine well able to take care of itself against foreign competition. These are a few examples of an effort in reconstruction which won the admiration of the world. And it deserved it, for its results were achieved under the most trying circumstances. The Communists were every day growing more numerous, and, until 1930, a large and extremely important part of Germany was still occupied by foreign troops, the effect of which upon the national temper it is hard to overestimate.

Unfortunately, all the hopes pinned to economic reconstruction proved illusory. There were various reasons. For one thing, this false spring of ours was produced by foreign money—short-term loans at an exceedingly heavy rate of interest. For another, our new and more

* Hamburg American Line.

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favourable balance sheet was doomed to be upset the very moment that it became necessary to pay reparations, which, like so many other debts, had hitherto been paid with money borrowed from abroad, out of the earnings of German industry. Germany was entirely in the hands of her foreign creditors, and of those creditors' creditors. What happened is now a matter of history.

For the moment, however, our political, financial and economic leaders seemed to ignore the facts ; at all events, disillusionment came through a sudden revulsion of feeling on the part of the rank and file. Millions of workpeople, especially clerks and other employees of their type, took a sceptical view. It was the same with middle-class folk of all kinds. They did not believe that prosperity was close at hand—why should they ? There was nothing in their own personal experiences to confirm such a belief. In other words, people in foreign countries who believed that it was possible, without changing the fundamental conditions, political as well as economic, to solve the German problem and persuade the fabled goose to start laying her golden eggs again, were as far from the mark as the Germans who thought that they could satisfy the German mind by stage-managing a kind of economic revival. Neither paid any attention to essentials. They left out of account both German psychology and the actual conditions under which the bulk of Germans were living.

A revolt was bound to come, a revolt against the system that disregarded these essentials. The general election in September 1930 took the whole world, including Germany herself, by surprise. It was more than a surprise ; it was a shock. Why did not the Government do something ? Prussia seemed to get along well enough under her Socialist Premier. Did the traditional obsequiousness of the German civil servant no longer hold good ? Had the German clerk lost his old faith in his satisfying if humdrum destiny of gradual social advancement ? Our sacrosanct system, moreover, has powerful supporters ; the President of the

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Reich, the Reichswehr, the Roman Catholic Church and the trade unions. Was it conceivable that these powers had failed to make its basis unassailable ?

Yet they had failed. The system was no longer immune from attack—and the attack spread rapidly. Workmen, peasants, students, clerks, schoolboys, officers, civil servants, artists, shopkeepers, waiters—people of all sorts—were growing restive, people who had remained patiently silent for years. It depended on their mental idiosyncrasies, and their greater or lesser readiness to respond to national or proletarian slogans, whether they became Communists or Nazis (National-Socialists). But they all had one aim in common—to pull down the old system, with its gloss of prosperity which, so it seemed to them, only served to conceal the real state of national bankruptcy underneath.

II. THE NAZI APPEAL

AS far as the Communists are concerned, there is no mystery, but the Nazi mind many people consider is harder to fathom. There is, however, really no puzzle in this case either. Take any German who looks down on the Social-Democrats and hates the Bolsheviks, yet at the same time despairs of the present rulers of Germany. What line would one expect him to follow ? What he wants is a guide, someone who will put in unmistakable language all that he feels and more. Remember that nine out of every ten Germans want to make a better show than their position warrants. They have no desire to be called proletarians, to be put in the lower classes. Now the Nazis are no proletarian party. They represent, not a particular class, but a movement. It does not matter to them from what class they draw their recruits, or what their social standing is. Nobody, therefore, loses anything by joining them. Many even feel that they have gained in importance, because the party managers tell them that,

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however little they may count as individuals, they are of the utmost use once they have become members, even humble ones, of the great Hitler movement.

But, apart from this, it is obvious that, for the average German who feels deeply the evil days on which the fatherland has fallen from the national standpoint, and who at the same time is suffering personally from the grave crisis which has overtaken its economic and financial life, the combination of socialism and nationalism offered by Herr Hitler is bound to be extremely attractive. No other party has developed both these lines at the same time. Otherwise the Hitler policy might carry less weight, for its methods are often repulsive and its political and economic ideas feeble. Most people, indeed, realise to-day that the tide of Hitlerism could never have reached its present high water mark, if it had not found the German starved on the national and social side after years spent in the prosperity hunt and rationalisation. Republican Germany has hitherto failed to evolve either a healthy national outlook or a common social ideal. Many have attained these things, but so far they have remained merely a conception of the individual, not a political philosophy fit for the nation as a whole.

On the other hand, the objections people feel to the public attitude of many of the capitalist leaders are by no means limited to socialists. A growing number of scandals and obvious abuses of its power have made the capitalist system suspect even in the eyes of people whose admiration for it is traditional. Our social organisation and our political classes have also disappointed millions of Germans. This is the real background of Hitlerism. Its anti-capitalist policy and social programme may lack solidity and permanence in many respects, but jealousy and the natural bitterness felt by middle-class people who have lost practically everything—their money as well as their social and political standing—have come as grist to the revolutionary mill.

The Nazi Appeal

It is safe to predict that the nationalist side of the Hitler movement will carry it further than its social side, and for this it may thank the nations which won the war and their policy towards the losers. From the German point of view, there is little to show for the trying time when the policy of fulfilment, started by Rathenau and carried on by Stresemann, was in force, and the German financial collapse was so closely bound up with international politics that it rendered a purely nationalist reaction inevitable. But the object of the nationalist movement, even in the form which the *Stahlhelm* gives it, is neither war nor revenge. The German likes uniforms and discipline. All those parades are merely the collective expression of the nebulous instincts of the individuals who take part in them. Discipline and make-believe help to keep the torrent in its own bed, and there is a formidable amount of fighting spirit bottled up in such organisations as the Hitler guards and the Red-Front of the extreme Left. Preparedness and a determination to be ready to meet attack from outside are recognised as a legitimate ideal even by the circles which surround our peace-loving Chancellor, and they must be taken in that sense. Sport failed to provide healthy young Germans with an effective vent for the combative spirit. There are, moreover, plenty of people still in far too intimate touch with pre-war institutions, and it is hoped that the more or less militarist organisations in which the *Wehrwillen** finds an outlet will provide a more effective safety valve for nationalist steam. It is even more important to realise that the policy of fulfilment has for years been dubbed inconsistent with German honour, inconsistent because it was applied to that hated Peace Treaty. Stresemann himself was suspected of compromising German honour and weakening our moral fibre. A nation with strong feelings was what was wanted, said the critics.

The attitude was natural. For most Germans, neither

* Will to defend one's country.

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the results of Locarno nor the evacuation of the Rhineland brought about any change in the international atmosphere. The evacuation was bound in any case to come unless France disregarded her obligations under the Treaty. In a word, the revolt owed its success in large measure to the international situation.

III. DR. BRÜNING AND BANKRUPT PARLIAMENTARISM

NONE of these things would, however, have been enough by themselves to make the patient, even indolent, average German bestir himself. It was the bankrupt state of the German parliamentary system that actually brought about the crisis. The political parties, especially the bourgeois, were no longer of any use as instruments for a live democratic system ; they had no life in them, no one trusted them. The leaders, moreover, had no idea of what was going on among the rank and file. At Weimar* every democratic nail they could lay hands on, including the disastrous proportional representation provision, was hammered home by the democrats. The system which emerged was strictly formal and doctrinaire, just in fact what one would expect in a country where everything has to be set down in black and white and formulated in the most scientific manner. This was, of course, the very way to kill parliamentarism. Furthermore, the long periods of coalition between the Catholic Centre and the Social-Democrats increased the danger of a misuse of administrative powers.

The want of a common national basis was an even more fatal defect for the purpose of the democratic game. There were not only devastating differences of opinion whenever a "national" question arose, but also a growing tendency to treat a particular part of the nation as beyond the pale, and to hold the Marxists responsible for everything that went wrong. The rate at which German parliamentarism

* The German constitution was drawn up at Weimar in 1919.

Dr. Brüning and Bankrupt Parliamentarism

was losing ground was further accelerated by the reckless way in which personal ability was wasted, a waste which is characteristic of German politics. The German longs for national heroes—he wants somebody to worship; but let a politician or even a statesman raise his head so much as half an inch above the average level, and he will immediately become a target for shafts from all sides. At best he will be stamped as a party politician. It is not yet realised that democracy is the only form of government that can be worked without a hero, or even a man of exceptional stature. As, however, the German parliamentary system has not yet delivered the goods, there is a tendency to try to import the heaven-sent leader from outside. It is unfortunate that our captains of industry, more often than not, seem only to have to touch politics—a new game for them—to lose every good quality that they ever possessed.

The consequence is that, for the last few years, the Cabinet has been controlled by the parties. To secure a majority in the Reichstag the support of half a dozen of them is essential, and government policy has, in fact, been directed by a group of parties which differ widely from one another in their views. This unfortunate state of affairs came to a head in the time of Dr. Brüning's predecessor, Hermann Müller. The late Social-Democratic Chancellor was one of the best men in the democratic camp and he deserved a better political fate than he actually got. But he allowed the political groups to control the government, and as most of the majority parties endeavoured to pull him in different directions, he naturally came to grief. On the one hand, there were the Social-Democrats, out to uphold the principles of organised labour, on the other, there was, on the right wing, the German People's party, which had become an organisation for the defence of big business and the interests of certain industrial groups. In the course of this conflict the Müller Cabinet collapsed, and it is also the main cause of the difficulties

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which have confronted Dr. Brüning since he assumed the leadership eighteen months ago. Such questions as wages and unemployment insurance, if left to party politicians to solve, may in the end, indeed, have a more detrimental effect upon the fortunes of the Brüning Cabinet than the assaults of the so-called "National Opposition"—Hugenberg, Hitler and the rest.

When Dr. Brüning first took office, he hoped to solve the parliamentary problem by destroying the Hugenberg party, and building up a new front composed of all well-meaning people. A few weeks later, however—in April last year—it was already clear that this plan had failed. Only a few members of the Hugenberg party had come over, and the Chancellor found himself in exactly the same predicament as his predecessor, except in one important respect. To enable him to control the parties, the President had entrusted him with powers to govern and legislate under the famous Article 48 of the Constitution, and he could dissolve the Reichstag if it failed to agree. The majority parties either did not realise what this meant, or, like the People's party, they did not care. At all events, they went on playing the old game. None of them would give way; the People's party opposed everything that the Marxist Social-Democrats wanted, while the latter strongly resented Dr. Brüning's attempt to ride roughshod over the parties and to force the hand of Parliament under Article 48.

The climax came with the general election in September last year. The votes polled were a protest—against parliamentarism, against Marxism, against capitalism, against the Treaty of Versailles, against the economic depression, against everything indeed that was, or that seemed to be, amiss. The one thing in this chaotic state of things that staved off a still greater disaster was the old German sense of order and goodwill that has not even yet been altogether destroyed. The Nationalists of course

* Leader of the Nationalists.

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again emerged from the election as a minority, and the Communists did the same, though both of them were returned with a considerable accession of strength. But the outstanding feature of the election was the protest against the capitalist system in which Hitlerites, Communists and Social-Democrats all joined. It was only the divergence of their aims that prevented them from being able to form an alternative government. So the Brüning Cabinet continued in office, and things remained very much as they were before. That is still the position.

In reality, Dr. Brüning had again missed the mark. His aim was a government majority independent of the support of the Social-Democrats. The strength of the Nationalist vote, however, put an end to that, for the middle-class bodies, such as the old Democratic party and the old National Liberal party, were nearly put out of action by the success of the Hitlerites. Dr. Brüning himself was taken by surprise. The only course still open to him was to try to make the Cabinet less dependent upon the parties, and to reduce parliamentary business to a minimum. His chief difficulty was a personal one. His own conscience and that of the President obliged him to keep as strictly as he could within the four walls of the Constitution. There is nothing in it which compels a Cabinet to do what the parties want, but, on the other hand, it is expressly laid down that the Government must have the confidence of the Reichstag. The question then arose, was it possible to keep the parties at a distance, and to do things that they would not agree to, without losing the moral support of Parliament. This thorny problem still occupies Dr. Brüning's mind. It is also a difficult one for the parties, who have no desire to make themselves responsible for emergency decrees imposed upon the nation without the consent of Parliament. The present short sessions of the Reichstag may have extraordinary results, and a transformation of the German democratic system is taking place before our eyes. The change has not yet assumed definite

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shape, and the negative side has hitherto been to the ~~for~~
rather than the positive; but, under Dr. Brüning's guidance, Germany is endeavouring to discover a more suitable kind of democratic government than the form which has developed during the decade since Weimar—a hard task under present circumstances.

During this transformation period the structure of government has had to rely upon the support of various supplementary props instead of on Parliament. First, there is the venerable President of the Reich, Field-Marshal von Hindenburg, with not only Article 48 at his command, but the Reichswehr as well, morally if not formally. Its commander and all its leading officers are beyond all question loyal both to him and his Chancellor. Then there is the hitherto solid block comprising the Roman Catholic Centre and the Social-Democrats in Prussia, the latter representing the trade unions, a combination which puts the all-important Prussian police at the disposal of Dr. Brüning.

This extraordinary combination has, however, inconveniences of its own. The very fact that, since the election—in spite of his anti-Marxist slogan—Dr. Brüning has been on good terms with the Social-Democrats increases his troubles with the anti-Marxists. He has made it quite plain that he will not destroy or even damage such important social institutions as the insurance system or the *Tarifvertragrecht*,* which means that he will never be a statesman to the liking of the People's party or Herr Hugenberg. On the other hand, his relations with the President and his dependence on the goodwill of the Reichswehr are thoroughly objectionable in the eyes of the radical parties. They have, moreover, also alarmed foreign observers. He has had, too, to adopt an agricultural policy which is considered to favour the big agrarian interests without solving the agrarian problem, and which injures the non-agricultural population by raising prices. It is extremely important, too, to realise

* Right of making collective agreements.

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that the fact that the Chancellor has to pay a price for the support of these particular props during this period of change accounts for many of the things which have aroused foreign criticism; the attitude of the Government, for instance, towards "national questions," such as the Stahlhelm parades, the construction of cruisers and the like.

It is quite possible that Dr. Brüning, himself a conservative by instinct, would have turned more readily to the right if the Nationalist slogans had not been of a kind to offend his sober temperament. He might have done so in any case, if he had been able to follow the usual parliamentary course. As already mentioned, indeed, he started, in April last year, with the idea of persuading the bulk of the conservative German Nationalist party to share the responsibility of government, and he made no effort to stop the "anti-Marxist" drive during the election campaign in the following September. He never claimed the prefix "Hindenburg" for his government, but he raised no objection when the aim of the election was declared to be the building up of a strong "national" government, and the ground on which he asked the electors to give him the clear majority that was denied him by the old Reichstag, was that his government enjoyed the confidence of the President. What he wanted was something "national," above parties and party intrigues.

It is the first time since Weimar that a German Chancellor has gone to the country with such an appeal. It made everyone who did not vote for him appear insufficiently "national." But this scheme also failed, and it did so because, in Germany (unlike England), there was a great movement on the other side which also claimed to be "national"—the Hitler party. For that reason the slogan of 1930 was changed—it became "Marxist or anti-Marxist," a war cry which corresponded more closely to the facts. But even this did not work. Parliamentary considerations as well as the exacting daily round compelled the Chancellor to keep on good terms with organised labour.

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A dictatorship would have been a way out, but, unless the dictator was ready to risk a civil war, it would not in the end have helped Dr. Brüning to avoid a compromise between the capitalist interests and those of the workmen. He was, however, never ready to accept a dictatorship, nor was it offered him. President Hindenburg would not have it.

It is an interesting speculation what would happen if the President should find an alternative government possible. Apparently there is little chance of such a thing in the present Reichstag. It would obviously have to be a government of the Right, and would require the support of the Centre party as well as of the Nationalists. But as long as the Centre see any chance of Dr. Brüning being able to carry on, he will have their backing. It may be that the wings of the majority parties will some day give up their obnoxious tactics. The Right had to come back, more or less, when it tried to withdraw from the Chamber last October, for there was no alternative government in sight, and a reconstruction of the present one would have made very little difference. The Right, therefore, are reserving their efforts. On the other hand, the Social-Democrats will do their best to prevent Dr. Brüning from being overthrown from their own side.

Everything therefore depends upon whether the Nationalists can prepare the way in the present Reichstag for an alternative government. The President will certainly not allow a general election in the near future, so the only course open to the so-called "National Opposition" is to organise demonstrations like the one at Bad Harzburg, in the hopes that the right wing of the Chancellor's majority may be tempted to fall out of the line. But, if they did respond, the position would still remain the same, unless the Centre party were to go Right. Even if the Brüning Government had been defeated in the Reichstag in October, and the President had asked some politician of the nationalist type—not Hugenberg—to try to form a government,

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the new man would certainly have failed, because the President would not have given him leave to go to the country, and in that case Dr. Brüning would have been asked to carry on, vote of censure or no vote of censure. In view of these considerations, it is possible to predict with comparative certainty what is likely to happen for some time to come. Meanwhile there is a marked tendency to try to get a better atmosphere between the Centre party and the Nazis, and Hitler's spokesman in the Reichstag has also made it clear that the Nazis recognise the necessity of an understanding with France upon conditions which do not differ in any important respect from those which Dr. Brüning and others have frequently foreshadowed.

IV. GERMAN POLICY

D R. BRÜNING then by his efforts to reconstruct the "system," both on its political and on its economic side, has certainly contributed, in however small degree, to the relaxation of the existing tension. The very fact that the Nazis have stood quietly by for so long, coupled with their leader's declared resolve to keep within the law, has made the prospect of revolutionary developments far less likely than it was a year ago, though on the other hand the growing intensity of the financial crisis has strengthened the ranks and embittered the temper of the extremists and made the general situation worse. We can but hope that the favourable tendencies will prevail. One thing is, however, certain. The prospect of imminent disaster last July convinced thoughtful Germans that if we wish to come through we must all pull together, and the morale of the nation has, with few exceptions, been admirable. This at all events is a hopeful feature. Anyhow, it must now be obvious to the meanest intelligence that Germany has no alternative except to concentrate on the really vital problems. Even the Nationalists realise the

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danger, and one hears much less talk about the need of a more active foreign policy. The customs union affair opened people's eyes. Dr. Curtius has gone and we try to forget that particular episode, hard blow though it was—the Austrian question lies very near the German heart. It was, moreover, meant to be a test case. The incident should anyhow prove that Germany, when she is in the right, is capable of taking action to protect Austria from Danube-confederation schemes and other French designs. Badly as it ended, there is no justification for the unfair attitude of self-disparagement which so many Germans have adopted towards this "adventure." It will, at any rate, keep the Austrian problem in the limelight for some time to come.

Since this episode, German foreign policy has taken a different and a more promising line, in which it has been assisted by the Hoover holiday, which made us feel that after all there is ground for hope that a more reasonable settlement may be substituted for the Young Plan. If so, much of the wind would be taken out of the nationalist sails.

If, then, Dr. Brüning approaches the problem in a frank manner, putting on one side everything which has no bearing on the immediate trouble, he will meet with little opposition. An understanding with France is already accepted in principle in practically every quarter in Germany, and, though such a policy involves putting off certain German aspirations, it is obviously out of the question to attempt to satisfy them at present. Germany's position too in the matter of disarmament has inevitably been weakened by her financial difficulties. There are only two problems, which cannot be long postponed. The first is the question of what is going to happen in February when the repayment of our short-term debts becomes due under the preliminary agreement; the second, what are we going to do before the Hoover holiday comes to an end next summer. Dr. Brüning's foreign policy will certainly be concentrated on these two points.

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So much for the future, but a word is called for to explain German action during the past critical months. The July crisis, it must be remembered, had already gone some way before its existence was fully realised. No one could have anticipated the extent to which French action had accelerated its development and helped to alarm the world—the small German investor among the rest. It is the general conviction in Germany that both the nation and the Government did all they could to convince the world that they intended a fair and honourable settlement. The banks paid out money without stint till July 12, when two of them collapsed. The right thing was also, we consider, done after the collapse. Subsequent contracts have been strictly fulfilled, in spite of the harm which was sure to result from additional payments of such magnitude. Since then credits have become dangerously shorter and money dangerously dearer. The number of bankruptcies and failures has been large—between July and August it increased by 95 per cent. The last penny has been squeezed by the Government out of business concerns and individual citizens alike. The way in which imports have been cut down has elicited protests from all sides abroad. Not long ago we had a surplus of exports for the month of not far off 400 million marks, instead of the usual excess of imports; but this result was only achieved at the expense of people who want to sell their goods to Germany. We have managed, by cutting down our trade and profits, to repay between the end of July and October another milliard of marks on account of our short-term debts, 400 millions of which were due under the July contracts, and during the first ten months of the current year over four milliards on short-term credit must have been paid back out of a total of roughly twelve milliards. But such huge amounts, on the top of all the other payments that have been made, could not be transferred during the worst depression in history, without painful repercussions, and the problem of the future cannot be solved without an

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international agreement. The German authorities, however, considered it their first duty to come to an arrangement which would permit of their short-term creditors getting their money back within a reasonable period. The position is clearly described in the famous Layton report, though the latest figures of Germany's external debt are even higher than those given in the report, and it is essential that the existing arrangement, which will come to an end in February, should be replaced by another. Meanwhile, we can only hope that there will be some indication before long of what is going to happen when the Hoover year is up.

Such is Germany's financial policy, and it is believed that there is no other way of avoiding bankruptcy or inflation. We all know people who would like to get out of paying their debts ; we have them here in Germany as well, and these are the people who are at the moment pressing for a policy of inflation. It seems beyond question that restriction of credit and deflation have gone too far, and many think that the mark has been stabilised at too high a level. There is a tendency, even in responsible circles, to try to get the resulting high pressure relieved, if it can be done without danger of inflation. When England's position, owing to the attitude of her creditors and the inability of Germany to repay her short-term credits, also became critical, and it was decided to allow the sterling exchange to find its own level without official management, the temptation in Germany to follow suit was great. Conditions in the two countries are, however, completely different, and besides, although a managed currency need not lead to inflation, people in this country have such a horror of the possible risks to which such a course might expose us, that the first note of alarm in the press was sufficient to elicit a declaration, from parties and industrial organisations alike, that nothing would induce them ever to recommend an inflationary policy of any kind. The Government and the Reichsbank have followed their lead with an even more emphatic statement..

How About England ?

V. How About ENGLAND ?

WHAT then is England going to do ? That is the question on everybody's lips at the moment, for our fate largely depends upon the answer. At what level will the pound be stabilised when the moment comes, and what is going to be England's fiscal policy ? Lastly, what are the consequences going to be for ourselves and the rest of the world ?

The present position, in so far as Germany is concerned, is clear. She can only come to the reasonable arrangement that she desires with her creditors if her foreign trade is expanding and her home market stable. The devaluation of the pound has, however, already hit her a heavy blow by increasing the competitive strength of British industry. Coal, iron and textiles, as well as other German industries, have all suffered. Most of our people believe that the effects of the devaluation may not last—internal prices may follow the external rate of the exchange. But this need not necessarily be so—wages, for instance, may not go up. But if British economic pressure on our trade continues and we are at the same time asked to make payments which are only possible while trade is expanding, the whole situation will be completely changed for Germany.

And there is another danger ahead. There is talk in England of a general tariff, at all events of new customs barriers of some kind or other. We have vividly in mind the effects of the Italian customs policy and the difficulties that Germany is experiencing with countries like Switzerland and Denmark, in consequence of her endeavour to restrict imports and exports. The outlook is certainly dark. Turn where one will there are rocks ahead. Petrol, nitrogen, the money market, the exchange and the customs, it is the same with everything. If all these fears are realised, it will not matter very much to us whether we

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have Dr. Brüning or Herr Hitler for a ruler, or whether France is willing to disarm or not.

One thing, however, may be taken for granted. The German people has not lost hope. The guidance and the "will to live," which in the last resort may prove the decisive factors, are not absent. Here in Germany we cannot get far enough away from the scene to see things in their true perspective. It seems to us to be all chaos, particularly in the political arena. But it may be that later on it will be recognised that to-day's troubles are the inevitable repercussions of a fundamental reconstruction which is destined to transform, not only the modern State and the political and economic ideas to which it owes its present form, but, what is far more important, the men and women on whom the task has fallen of grappling with this tremendous problem.

Germany.

November 1931.

THE MANCHURIAN CRISIS

CHRONICLE OF EVENTS—SEPTEMBER 19 TO
OCTOBER 19

AN attempt is here made to extract from a welter of partisan and unverifiable reports an accurate chronicle of the development of the Sino-Japanese crisis dating from the Japanese occupation of Mukden on the night of September 18-19, up to October 19.*

Feeling against China was running very high in Tokyo during August and early September. A series of incidents occurred between Chinese and Japanese subjects in China during the summer, and early in September the Japanese press was urging a "strong" policy upon the Government and pronouncing that no less than three hundred "points" were at issue between Japan and China. Throughout this period feeling in Japan was exacerbated by a newspaper campaign in connection with the case of Captain Nakamura, who, according to Japanese military leaders in Manchuria, was murdered last June by Chinese soldiers on the borders of Manchuria and Mongolia. A meeting of the Japanese Cabinet was called on September 8 to consider the situation. At this meeting the War Minister denounced the "procrastination" of the Chinese Government in dealing with the case of Captain Nakamura. An investigation was at the time being carried out by the Chinese authorities at Mukden, and the Japanese Cabinet decided to await the conclusion of this inquiry before taking action. A resolution was passed to the effect that the military

* A map showing the region affected will be found in the appendix.

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and diplomatic authorities would act in concert "regarding what action is to be taken if the Chinese fail to show sincerity in promptly conducting the negotiations."

The Chinese view at this period was summed up by General Wan Fu-liu, the Governor of Heilungkiang, the northern province of Manchuria, who declared: "This so-called Nakamura affair is nothing but a pretext now being utilised by the Japanese for the realisation of their objective—penetration into Manchuria."

On September 9 the *Asahi* expressed the view in a leading article that the Japanese War Office was pressing "the security occupation of an important region in Manchuria or Mongolia."

On September 18 the Tokyo papers contained reports to the effect that General Jung Chun, chief of the staff of the Manchurian army, had informed the Japanese Consul, Mr. Morioka, that proof had been obtained that Captain Nakamura had been shot by Chinese troops on June 26, and that a detachment had been despatched to arrest the perpetrators of the outrage.

Late at night on September 18 Marshal Chang Hsueh-liang, at Peiping, received a telegram from Mukden stating that at ten o'clock Japanese soldiers opened fire upon the Chinese city, killing a number of Chinese troops, that the Chinese military camp, the arsenal and the Chinese city were under shell fire, and that the local Japanese civil authorities declared themselves powerless to control the situation. The message stated that the Chinese forces were not retaliating. Marshal Chang Hsueh-liang sent an urgent telegram in reply, ordering the Chinese troops to take no action against the Japanese. Japanese reports stated that a clash had occurred on the outskirts of Mukden between Chinese and Japanese troops after an attempt had been made by Chinese troops to destroy a portion of the South Manchuria Railway line. Later it was reported that the Japanese troops had occupied Mukden, no resistance having been offered by the Chinese.

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By three o'clock on the morning of September 19 all telegraphic communication of a political character had ceased. The headquarters of the Japanese army in Kwantung were transferred to Mukden, the Commander-in-Chief, General Honjo, leaving Dairen at 3.40 on the morning of September 19, on a special troop train, with 800 infantrymen. At about 4.30 in the morning Japanese troops occupied Kwangchengtze, the important junction of the South Manchuria Railway, the Chinese Eastern Railway and the Kirin-Changchun Railway, and Japanese reinforcements moved up to various points along the South Manchuria Railway. A division in Korea was given orders to hold itself in readiness to proceed on special service to Manchuria. At Tokyo a hastily convened Cabinet meeting issued instructions to the civil and military authorities in Manchuria to do their utmost to localise the issue. Later in the morning Japanese troops occupied Newchwang and Kaopangtse. Early in the afternoon it was officially announced in Tokyo that "the destroyed section of the South Manchuria Railway had been repaired," and orders already issued by the Japanese War Office to troops in Korea to proceed to Mukden were cancelled.

Although a considerable number of Chinese soldiers were killed during the shelling of the Mukden arsenal, the rapid deployment of Japanese troops and the occupation of various points was accompanied by very few casualties on either side, the Japanese losses being negligible.

The Chinese Foreign Office lodged a formal protest with Mr. Shigemitsu, the Japanese Minister to China, and on September 20 Dr. C. T. Wang announced that the Chinese National Government was "greatly exercised over the situation caused by the unprovoked attack of Japanese troops on Mukden and other cities in the three eastern provinces." He said that the Chinese Government was preparing an appeal to the League of Nations and the signatories of the Kellogg Pact.

Japanese warships were despatched from Dairen to

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Chinese ports on the north Shantung coast for the protection of Japanese nationals.

Feeling was running very high in Nanking, but the Government did its utmost to calm the people, and Mr. T. V. Soong, the Minister of Finance, played an heroic part in shaping and pressing this policy of moderation. The Chinese Government sent a second note to Japan.

On September 21 fighting continued in Manchuria, Japanese troops advancing towards Kirin, and Japanese nationals evacuated the province. In Harbin there was some display of anti-Japanese feeling among Soviet officials. In Tokyo there was a Cabinet crisis with regard to the despatch of additional troops to Manchuria. The news broke of the beginning of the peace movement between Canton and Nanking, which has been progressing through a web of rumours up to the time of writing (October 19), when a formal conference between the two parties is on the eve of taking place in Shanghai. A large demonstration of students was prevented by the authorities in Peiping. Meanwhile, in the evening, General Minami, the Japanese War Minister, sent reinforcements from Korea into Manchuria on his own initiative. Later Kirin was occupied by Japanese troops.

On September 22 Japanese troops were deploying towards Harbin. There was a second Cabinet crisis in Tokyo, Baron Shidehara, of the Foreign Office, and General Minami, of the War Office, taking opposite views with regard to further activities in Manchuria. The Japanese Government announced that the temporary military administrations in Mukden and other occupied towns in Manchuria were handing over to the Chinese civil authorities. In Nanking mass meetings of students took place urging a warlike policy upon the Government, and the Chinese Government took special precautionary measures to protect Japanese nationals in Nanking.

On September 23, all the Japanese evacuated Nanking. There was another mass meeting in the capital, the Chinese

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students demanding war against Japan. Meanwhile Japanese troops consolidated their position in the province of Kirin, and the Cabinet in Tokyo arranged for the despatch of troops to Harbin. In Nanking the first message from Geneva signed by Senor Lerroux produced a calming effect. China issued her third protest to Japan. In Hankow anti-Japanese demonstrations took place, but there was no damage to life or property.

During the next few days, various military incidents were reported from Manchuria. Wherever Chinese troops were concentrated, Japanese aeroplanes dropped bombs in order to ensure their dispersal. On September 25, the Japanese Government issued an official statement to the effect that troops were being withdrawn into the railway zone, and that small detachments only remained in Mukden and Kirin.

On September 26 there was a violent reaction in Nanking on the receipt of disappointing news from Geneva, and on September 28 a party of incensed Chinese students attacked Dr. C. T. Wang in the Foreign Office.

On September 30 Dr. C. T. Wang resigned his post as Foreign Minister. The position has not yet been filled, and the work is being shouldered for the most part by Mr. T. V. Soong. Meanwhile there are many rumours regarding independence movements in Manchuria and Mongolia, which are believed to be inspired by the local Japanese authorities. There have been accusations from China and denials from Japan, and it has not been possible to ascertain how far these movements have been serious or how far they have received Japanese support.

On October 2, Japanese aeroplanes reconnoitring dropped bombs upon Chinese troops stationed along the Harbin-Mukden Railway, and on October 4, four Japanese destroyers were ordered to proceed from Tokyo to Shanghai "owing to the increasing gravity of the anti-Japanese movement in the Yangtse Valley."

On October 8, Japanese aeroplanes dropped bombs upon

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Chinchow, which had been adopted, after the capture of Mukden, as the temporary headquarters of the Manchurian Government. Several Chinese were killed and the inhabitants of Chinchow were thrown into a panic. On the following day the Japanese Government explained the bombing of Chinchow on the grounds that the aeroplanes were first of all fired upon by Chinese troops. It was admitted that the Japanese aeroplanes dropped about seventy bombs, causing considerable damage.

On October 11 Mr. Shigemitsu, arriving in Nanking from Shanghai, presented a note from Japan to the Chinese Government protesting against the anti-Japanese agitation in various parts of China and warning the National Government that it must take responsibility for the consequences if the movement is permitted to continue. On October 13 Nanking replied, stressing particularly the fact that while the Chinese Government had done its utmost to control the growing indignation against Japan which had been increased by recent incidents, such as the bombing of Chinchow, it was impossible to prevent a refusal on the part of Chinese traders to handle Japanese goods. The Chinese Government declared that, in spite of Japan's provocative action, it would continue to give protection to the lives and property of Japanese nationals in China.

From now on the situation in Manchuria remained unchanged, and the centre of affairs, which had already shifted from Manchuria to the Yangtse Valley, appeared to shift once more to Geneva, where the League Council reassembled on October 13.

No attempt has been made to deal chronologically with the discussions of the Manchurian situation before the League Council or of the succession of notes and protests exchanged between Geneva and Nanking and Tokyo, or the part played by Washington. Every movement from Geneva, however slight, has been watched with intense interest in China. From the very commencement of the crisis on September 20, Chinese public opinion has been

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concentrated upon the League of Nations. The Nanking Government, making a tremendous and extraordinarily successful effort to prevent the outbreak of any anti-Japanese incidents, and to preserve a calm atmosphere, has emphasised to the utmost the fact that China, relying upon the moral rectitude of her case, has placed her complete faith in the power of the League of Nations to enforce a just settlement. Public opinion is inflamed or calmed by the news from Geneva, and it is not an unjustifiable supposition that a failure now on the part of the League of Nations to justify the expectations of China, would have very far-reaching results with regard to the attitude of the Chinese towards foreign interests generally. It would almost certainly precipitate the fall of the Nanking Government. It is unquestionably true that the Chinese Government has done all that could possibly be expected of any government to protect Japanese nationals and to prevent any aggravation of the situation.

The protests on the part of the Japanese Government against anti-Japanese activities have so far been supported by no definite examples that any such activities have occurred. There has been, on the other hand, considerable provocation on the part of the Japanese.

On the Japanese side, never has a case suffered so badly for want of presentation. Japan has essential interests in Manchuria protected by treaties with China. China has repeatedly infringed both the spirit and the letter of these treaties. One of the most important of the Japanese grievances was directed against the contemplated building in Chinese territory of a railway parallel with the South Manchuria Railway and a port to rob Dairen of its traffic. This proposal is believed to be a direct contravention on the part of China of a treaty, the terms of which have never been made public. But Japan has not yet tabled in any convincing form the basis of her case against China. Furthermore, it seems clear that the whole operation has represented a lamentable failure to co-operate between the

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Ministries of War and Foreign Affairs. The initial action having been taken on the night of September 18, the supplementary movements took place automatically in accordance with carefully planned strategic arrangements. From a military point of view, given that the first movement had been made, the further rapid deployment of troops and the prevention of any concentration of Chinese troops were necessary corollaries if a small force, strung out over a wide territory, was to be assured of protection for itself against potentially overwhelming forces at particular points.

The boycott of Japanese goods in the Yangtse Valley is well sustained. It appears to be very largely a spontaneous movement, and it does not seem to be conceivable that the policy, with which Japan was credited a week ago, and in accordance with which it was supposed that she intended to attempt to break the boycott by means of intimidation, could be successful. There have been no incidents in China involving the loss of life of Japanese nationals.

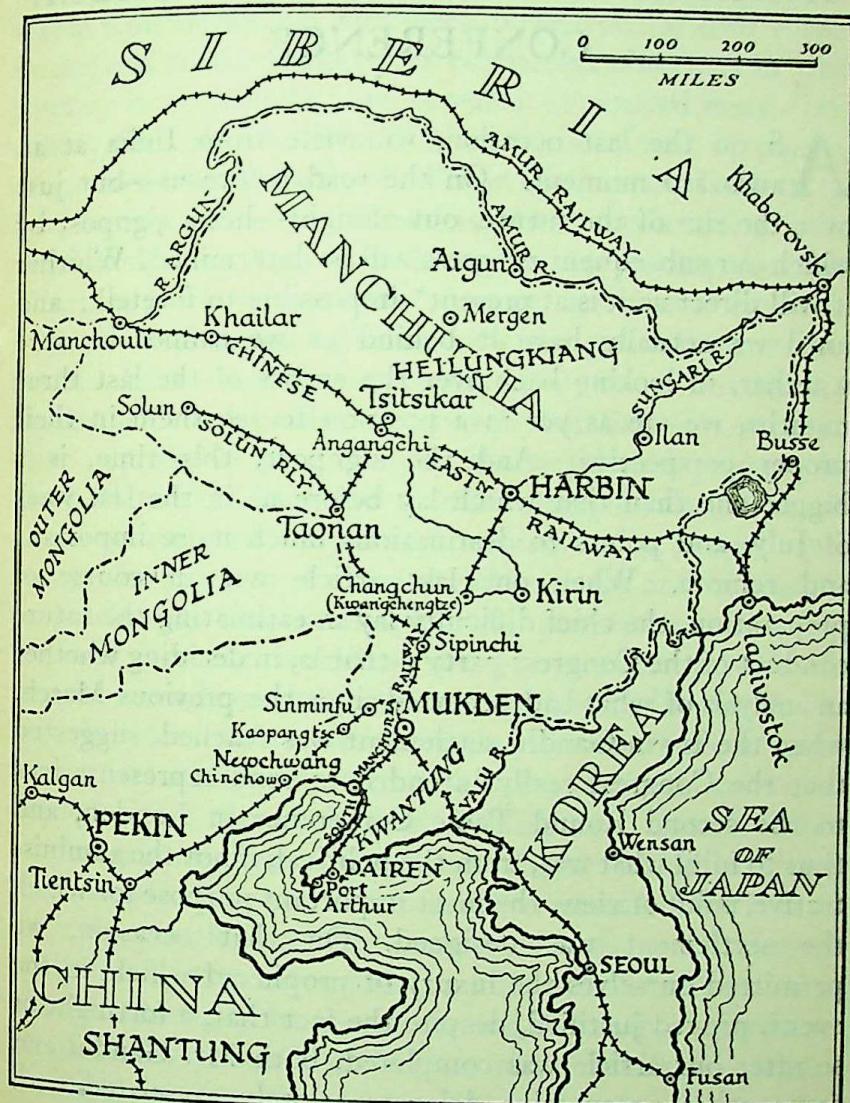
Shanghai.

October 20, 1931.

The Manchurian Crisis

APPENDIX

Map of the Region Affected



Based on a map which appeared in *The Times*, October 10, 1931.

INDIA AND THE ROUND TABLE CONFERENCE

AS on the last occasion, we write from India at an awkward moment. On the road before us—but just over the rim of the future, out of sight—lies a signpost by which our subsequent progress will be determined. Whither it will direct us it is at present* impossible to foretell; and until we actually have it behind us we cannot be sure whether, in looking back over the events of the last three months, we are as yet in a position to see them in their proper perspective. And the signpost, this time, is a bigger one than that which lay before us in the last week of July, and points to destinations much more important and remote. When our last article was in course of preparation, the chief difficulty lay in estimating the future conduct of the Congress party; that is, in deciding whether an analysis of what had occurred since the previous March, when the Irwin-Gandhi settlement was reached, suggested that the Congress really intended to send representatives to the second Round Table Conference in London, and thus to fulfil what was, from the political, if not the administrative, point of view, the most important purpose for which the settlement was designed. On that occasion, we permitted ourselves the luxury of prophecy† which, in the event, proved justified, despite the fact that, a fortnight or so after our article was completed, both Mr. Gandhi and some other prospective delegates closely associated with him announced that they had definitely decided against

* This article is dated November 1.

† See THE ROUND TABLE, No. 84, September 1931, p. 829.

India and the Round Table Conference

participating in the Conference. Possibly, within the next few weeks, the arguments we adduced in support of our forecast may prove to have been correct also. But, however that may be, the uncertainty now before us is of vastly greater scope than that provided by the intentions of a particular group of political leaders. The second Round Table Conference has now been in session for over seven weeks, and to the majority of competent observers in this country it appears to have revealed or created more difficulties than it has solved. No announcement of policy, other than that made by the Prime Minister on January 19 last, has up to the time of writing been forthcoming from the British side; and, with things as they are at present, it is hard to see how any announcement that does not consist largely of ambiguous and unsatisfactory generalities can be made. Nevertheless, as was pointed out in our last article, and as the British public, even now, is still liable to overlook, there is probably no country in the world to-day where so much of the idealism and mental energy of the educated classes is devoted to political matters as in India; and during the last two or three decades a large and increasing proportion of this section of the population—probably 80 or 90 per cent. would not be an over-estimate of their number nowadays—has been animated by an intense desire that their country's constitutional status should be in some way substantially improved. A full two years have now elapsed since the project of holding the Round Table Conference was first officially announced,* and throughout that period it has presented itself to educated Indians as the only practical means, short of directly revolutionary activity, whereby any satisfactory measure of the political advancement they have so long and fervently desired can be obtained. Should it fail, or yield results so meagre

* The day on which this article was completed was actually the second anniversary of Lord Irwin's famous statement on the subject; but rumours that some such plan was being devised had been current for months beforehand. Moreover, a conference of an approximately similar nature had been demanded on various occasions by nationalist leaders for several years.

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and remote as to be genuinely offensive to most members of the literate classes—we may discount, of course, in advance the merely automatic protests which will inevitably be raised, for tactical reasons, whatever the outcome may be—the consequences would unquestionably be very serious and far-reaching. Within a fortnight from now some announcement by the Prime Minister, or the Secretary of State, of the intentions of the British Government concerning the Indian constitutional conundrum must apparently be made. Upon the nature of that announcement, and its reception in this country, will depend the politicians' conduct in the future, and the historian's interpretation of the past.

I. MR. GANDHI'S REASONS FOR GOING TO LONDON

IN describing—within the limitations imposed by our inability to anticipate the results of the Conference—the more noteworthy events and movements of opinion during the last three months, it may seem unnecessary to devote much space to the subject of the workings of Mr. Gandhi's mind during the anxious weeks when he was deliberating whether to venture to London or not. The episode in itself now seems, from our present vantage ground, curiously isolated and remote ; but a good deal lay behind it, and since its significance was perhaps at the time insufficiently appreciated in England, it is proposed to take it as a starting point. It is of course true that, ever since the plenary session of the Congress at Karachi ended during the last week in March, Mr. Gandhi had spent a great deal of his time in Gujerat, listening to and endeavouring to redress the imaginary or actual grievances of the peasants, a proceeding which, incidentally, now appears to have been somewhat misdirected, since had he, instead, carried out his professed intention of devoting all his energies to seeking a solution of the communal problem, the leaders of the various groups in London would possibly have been more

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accommodating to one another, and public exhibition of the disunity and mistrust that can exist between Indians might have been largely avoided. It is also true that Mr. Gandhi is himself of Gujerati origin, that his personal influence, great though it has been throughout the whole country, is most pronounced in his home province, and that the cultivators in the region concerning which the dispute arose, particularly those of the Bardoli *taluka*, have well repaid the attentions that the Congress leaders have lavished upon them in the past, and might reasonably think themselves entitled to claim special favours at their hands. But that these considerations alone explained Mr. Gandhi's conduct, whereby the participation of Congress in discussions affecting the political future of the whole of India was made solely dependent on the circumstances of a particular set of cultivators in Gujerat, none but the most ingenuous readers of Congress newspapers ever seriously believed. What really goes on in the mind of one who is at the same time an astute politician, a brilliant publicity expert, an honest and charming man, a humorist and a saint, is one of the major problems of our times, but we may tentatively put forward the following as constituting part of the explanation.

From the time when the Irwin-Gandhi settlement was reached, Mr. Gandhi, we would suggest, had never decided whether, if it came to the point, it would really be to the advantage, either of his party or of India, that Congress should be represented at the Conference. There would be serious risks to be faced whichever course was adopted ; and when the Working Committee decided that he should be the sole Congress representative, the problem, by being made personal, became even more acute and involved. It was conceivable that, extreme and unpalatable though the Congress demands would be, something approximating to them might actually be conceded at the Conference. The first session had progressed unexpectedly far, and Great Britain was in a "defeatist" and pessimistic mood,

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distracted by domestic difficulties. Were something really substantial obtained at the second session, the Congress would look ridiculous by having refused to participate, and the politicians who had attended the Conference would return to India with greatly enhanced prestige. Moreover, by abstaining, the Congress would expose itself to the frequently repeated taunt that it is incapable of being effective except in non-co-operation, and has no capacity for constructive statesmanship. Again, while the Conference was in progress, the Congress would have a difficult *rôle* to play, and might lose ground throughout the country; civil disobedience, it was agreed, could not be resumed for at least some months with much prospect of success; and the Congress therefore, if unrepresented at the Conference, could do little to attract attention to itself. But by sending Mr. Gandhi to London, and retaining in India plenty of leaders capable of keeping the organisation in good trim, the Congress would place itself in a strong position, both morally and strategically. Whatever happened, it could then assert that it had done its best to obtain a settlement of its claims by reasonable negotiation; and meanwhile sufficient time would have been gained to enable the civil disobedience movement to be resumed with less difficulty, and, should the Conference fail, with more justification.

As against all this, however, there were several weighty considerations suggesting that abstention would be the wiser course. When the Irwin-Gandhi settlement was reached, the prestige of Mr. Gandhi, and of the Congress as a whole, was at an unprecedentedly high level. But enthusiasm subsides quickly in India, and already, as the summer advanced, there were signs that interest in the Congress and its activities was flagging. In the past—and particularly during the fifteen months prior to the settlement—a good deal of Mr. Gandhi's influence and authority had been due to the almost mystical air of aloofness and implacability with which he and some other Congress leaders were surrounded. But once he committed himself to journeying

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to London, to negotiate with members of the British Government in company with a crowd of his own compatriots, he would descend nearer to the level of ordinary humanity, and lose something of the advantage which his intransigence and Mahatmaship had previously conferred upon him. And this was not all. Although the numerous other groups and interests which have been given representation at the Conference are very amorphous and ill-organised—the Congress being almost the only body in India which can be said to approximate in effectiveness to a political party as the term is understood in Great Britain or the Dominions—many of the delegates who have been chosen to speak for them are extremely able and practical men, have spent years in public life, and in some instances have had extensive administrative experience. The question must surely have arisen in Mr. Gandhi's mind, as it certainly did elsewhere, whether, when sitting in deliberation with compatriots of this intellectual calibre, and with members of the British delegation, his own personal reputation would not suffer—despite his legal training and effectiveness as a speaker. Then, again, there were certain skeletons in the Congress cupboard which would probably have to be disclosed at the Conference, but which in India might still be safely kept in darkness. The question of federation, for example. The Congress press, when the first Conference was in progress, seemed jubilant over the *volte face* of the Princes, applauding their action as a great patriotic move which would advance the nationalist cause. But actually the declaration of the States' representatives in favour of federalism took most Congressmen by surprise, and disorganised their political philosophy. For years they had thought only in terms of British India, and the more optimistic among them had believed that, by capturing the existing central Government, and over-riding such opposition as the Moslems, Liberals and other indigenous opponents might be able to muster, they would in time be able

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to absorb the States into British India by a process of mediatisation and establish a united Indian republic. The ultimate implications of the Princes' action were therefore, despite protestations to the contrary, displeasing to Congressmen ; and although Mr. Gandhi's public utterances on the subject had been very discreet, he could not be expected, when it came to the point, to agree that the new Federal Government should be established on the Australian model, that is that it should be little more than the "agent" of the various Provinces and States, or that the Princes should have substantially more seats reserved for them in the Legislature than the population of their territories would normally warrant, or that the politicians of British India should be denied all right of interference in the States' internal affairs. Further, there was the communal problem to be faced, and the position of the Congress with regard to this, at the time when Mr. Gandhi had to make his decision, was embarrassing. The Congress press, of course, has for years sedulously fostered the idea that communal antagonism is not a natural growth, arising out of long-standing social and religious differences, and complicated by the advent of democracy, but a canker in the body politic artificially created by the British for their own purposes ; Congress leaders have frequently claimed that, were they free to devote their undivided energies to this problem, they could solve it in no time. Yet, instead of concentrating his attention on the communal issue, Mr. Gandhi, as we have indicated, had spent the larger part of the period available since his triumph at Karachi in investigating agrarian grievances in Gujerat, and such communal negotiations as there had been* had been so entirely fruitless that, shortly before he was due to leave for London, the Congress Working Committee had thrown up the sponge and, by definitely plumping for joint electorates, had antagonised the bulk of Moslem opinion in this country. Finally, it was to be anticipated that, if Mr. Gandhi went

* See THE ROUND TABLE, No. 84, September 1931, p. 825.

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 to London, his reception by some of the other delegates would be rendered somewhat awkward by the claim, so unremittingly made on his behalf by his admirers, that the Mahatma represented the united voice of an Indian nation, and that no other Indian present at the Conference would have a right to speak.

There is good reason to suppose, therefore, that the Gujarat business really had very little to do with Mr. Gandhi's hesitation about going to London; and in this analysis of supplementary reasons it is possible that there will be found the explanation of much that has subsequently happened at the Conference. No doubt Mr. Gandhi was perfectly sincere in the concern that he evinced for the Gujarat peasants, though it may be pointed out that, in so far as mere impoverishment consequent upon the economic depression and the civil disobedience movement was concerned, he could have found much harder cases elsewhere. No doubt also he was to some extent misled by Mr. Vallabhai Patel, who, it would seem, has always been averse to the Congress participating in the Conference, and who has much greater local knowledge than Mr. Gandhi, into supposing that the condition of the peasants, and the conduct of the district authorities, gave more grounds for dissatisfaction than was actually the case. But the real reasons for his agitation were certainly more substantial, and the state of affairs in Gujarat seems to have been selected only as a convenient means of bringing them to a head. If the Government, in order to secure the representation of the Congress in London, could be induced to concede his demands, constitute a committee of enquiry, and perhaps even admit the principle that the Congress was entitled to act as an intermediary between the administrative officers and the people, Mr. Gandhi could leave India with the assurance that the enormous prestige which he had enjoyed at Karachi, but which had subsequently shown signs of waning, had actually been enhanced. The Government, however, acted with commendable caution;

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the Congress "charge sheet" was promptly and effectively answered ; time was allowed to elapse without decisions being reached ; a detailed schedule of breaches of the settlement on the part of the Congress, which it was believed that the authorities had ready for publication in certain eventualities, was not released ; and in the end Mr. Gandhi suddenly pocketed his scruples and departed for London without having obtained more than an insignificant fraction of what he had demanded.

II. THE REACTION IN INDIA TO THE CONFERENCE PROCEEDINGS

WE must now briefly indicate how the negotiations in London since the Conference actually began have affected the state of opinion in India. There is no need to deal with the subject chronologically, since the proceedings have been better known to the British than to the Indian public, and in any case by the time these words are read, the significance of the detailed day-to-day events will have been interpreted in terms of the final result, which is as yet unknown to us. A few general impressions must therefore suffice. Firstly, then—since we have been dealing with the topic hitherto—there are the reactions to Mr. Gandhi's activities. For weeks after his arrival in England, and even during the voyage, the Congress press was turgid with accounts of every detail of his new existence, and strenuous endeavours were made to sustain the belief that the Mahatma's presence in London would work a miracle. "Gandhiji's conquest of Lancashire" was jubilantly announced ; the special traffic arrangements made during his passage from the East End to St. James's Palace were carefully noted, as indicating his peculiar status ; great significance was attached to the fact that, in first attending the Conference, he was given a seat next to Lord Sankey ; and crowds were reported as cheering him,

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just as in India, wherever he appeared. But this excited interest could not be maintained for long; the patent failure of the Mahatma to advance the Conference proceedings by miraculous or other means, and particularly his inability to settle the communal problem, caused steadily increasing disillusionment, and at present it would be true to say that Mr. Gandhi's stock in this country is lower than it has been since 1929. This is in many respects regrettable. For should he desire to revive the reverence and enthusiasm for himself, there is no doubt that he could do so, at any rate for a while, by issuing orders for a resumption of civil disobedience; and the reports received of the speech he made yesterday to the Commonwealth of India League would seem to indicate that he contemplates action of this kind. On the other hand, should he decide, on returning to India, to shut himself up in his *ashram* and eschew politics again, the results might be equally unfortunate, since those on whom his mantle might descend would find it hard to resist the temptation to acquire prestige by initiating some fresh subversive movement; and no one believes that any of the possible successors to Mr. Gandhi would be able—and some would not wish—to keep the movement even nominally "non-violent." Before we finally leave this topic, the attitude of the Europeans in India to the Mahatma's activities in England is worth commenting on. Some, particularly the more "race-conscious," exhibited signs of annoyance and perturbation at the unexpectedly warm reception he obtained, and fears were expressed that the ignorant and impulsive British public might be deluded into the belief that he is what he claims to be, the spokesman of a united Indian nation. To others, however—as it also did to practically every educated Indian—it gave genuine pleasure, as illustrating the natural hospitality and large-heartedness of their race; and had Mr. Gandhi, as was anticipated in certain quarters, been subjected to insult, particularly in Lancashire, the consequences here would certainly have been unpleasant.

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The settled pessimism which now obtains in Congress circles concerning the outcome of the Conference is largely due to disappointment over the achievements of their leader; and in a section of the press, insinuations are becoming daily more frequent that the Mahatma has been outwitted by the subtleties and anti-Indian machinations of British politicians. Acute depression also prevails in almost every other school of political thought, the Liberals being particularly downcast. On all sides, amongst responsible far-seeing men, one hears it argued that since, apparently, no workable constitution satisfactory to nationalist sentiment can be obtained for a number of years, India must seek relief for the malady she suffers from in the same way as other countries similarly afflicted have done in the past, that is, through drastic internal readjustments involving bloodshed. Only by surgical methods, it is suggested, can the agonising pangs caused by the birth of so immense a nation be tolerably shortened. There is widespread recognition, among intelligent Indians, that no one can reasonably be blamed for this; that the necessity arises naturally from the complexity of the disease. But this does not alter the gist of the argument; and it is also generally held that the second session of the Conference, which is likely to be the deciding factor, has been attended by singular misfortunes from the outset. The first session achieved some surprising results. By the unexpected decision of the Princes in favour of federation, the whole nature of the constitutional problem was altered, and responsibility at the centre, which has so long been the unattainable goal of nationalist aspirations, was suddenly brought within reach; the session also created an extremely valuable "atmosphere." On the other hand, the rapidity of the advance was somewhat misleading, since, except for the question of provincial autonomy,* all the important decisions made were of a provisional nature and no

* Also recommended in the Report of the Simon Commission.

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elaborately worked out. The second session, therefore, was not only exposed to all the disadvantages from which a "sequel" ordinarily suffers, but was also required to fill in, in a painstaking practical manner, the details of a sketch whose outlines had already been drawn, and in which no exciting modifications were likely to be made. Meanwhile, in India, between the first and second sessions of the Conference, the situation had become a good deal more confused. Communal relations had markedly deteriorated, not only owing to the breakdown of the negotiations between the leaders of the orthodox and nationalist Moslem groups, but also to an increase of friction between Hindus and Moslems in their ordinary day-to-day relations. Memories of Cawnpore were no doubt partly responsible for the latter, and also the riots in Kashmir, whose implications were far more important than people in England appeared to appreciate. In addition, the attitude of some of the Princes towards the prospects of federation was becoming noticeably hesitant.

Thus when the first batch of delegates left for London the political atmosphere here was already murky, and what has happened since has only increased the prevailing gloom. Despite optimistic declarations by Lord Sankey and others, the progress made as yet towards solving the four major questions left open by the first Conference—namely, communal relations, the terms on which the Princes would consent to federate with British India, the nature of the "safeguards" to be provided under the new constitution, particularly with regard to the army and finance, and the protection to be afforded to British trading interests—seems to Indian observers to have been infinitesimal. In the extremist press the deplorable failure of the negotiations for a communal settlement is generally ascribed to British intrigue, the contention being that the delegates were intentionally selected in such a way as to render agreement between them impossible. Elsewhere, however, it is recognised that, while political organisations

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in India remain in such a rudimentary state, a considerable number of those invited to attend a conference such as this must inevitably be identified with some extreme point of view. But it was hoped that, when deliberating together in a foreign country, beyond the reach of their more vociferous supporters, Indians of all schools of thought would be able to compose their domestic differences that they have, nevertheless, failed to do so has caused widespread disappointment, and few observers in the country believe that a real communal settlement can now be effected here for several years, particularly now that the Depressed Classes, Anglo-Indians, Indian Christians and others have started claiming special representation in the Legislatures on the same grounds as the Moslems and Sikhs. The hesitations and reservations of certain Princes have also given rise to alarm. Some of the major rulers whose activities were most conspicuous at the first Conference have not journeyed to England at all, and the Maharajah of Bikaner, who appears, more than any other member of his order, to have been responsible for the attitude that the Princes adopted last year, is not returning home. Significance is also attached to the fact that the press messages sent through concerning the course of events in London have been noticeably less voluminous and informative than on the previous occasion. As a whole the proceedings seem to have been entirely overshadowed by the political crisis in England; and the appointment of a member of the Conservative party as Secretary of State, followed by the staggering success of the Conservatives at the polls, is interpreted as being of ill omen for India.

The prevailing view here at present regarding the outcome of the proceedings in London is therefore approximately as follows, though it may, of course, be falsified by the events of the next fortnight. The Conference, it is believed, will in two senses prove a failure; that is, it will reach no final conclusions on a number of the most

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controversial points at issue, and such provisional decisions as are made will fall short of those demanded by the bulk of nationalist opinion. The British Government, it is assumed, will have to impose an arbitrary settlement in certain matters, particularly as regards the communal difficulty, and then proceed to draft a Bill for presentation to Parliament, incorporating therein such features as the Conference has been able to agree upon. Possibly certain eminent Indians will be asked to assist the Parliamentary Committee in its work, but no Congressman will be among them. When, or before, the Bill is passed, it will be vociferously repudiated by large sections of political opinion here, and the resultant state of affairs will be not unlike that which existed after the introduction of the Montagu-Chelmsford reforms. Many nationalist politicians now appear to consider that an imposed settlement would be a positive benefit to them. Under any imaginable new constitution, they must surely obtain at least a little more control over the direction of their country's destiny than they have under the existing constitution, and if any feature of the machinery is of purely British manufacture, it will enable them to restore an appearance of unity among themselves, by denouncing on patriotic grounds what many, no doubt, will subsequently be willing to make quiet use of. But the Congress certainly will be anxious, and perhaps able to do more than this. Recovery from the effects of the last civil disobedience movement is still far from complete, and the general economic depression, despite the slight improvement in trade caused by the depreciated currency, remains intense. The country, therefore, is in a very abnormal state. Were the Congress leaders to decide, as a protest against the conclusions reached at the Round Table Conference, to resume civil disobedience, the consequences would be extremely serious, and might possibly lead direct to that general breakdown of the social and political structure which many thoughtful observers believe to be ultimately inevitable.

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III. THE FINANCIAL CRISIS AND OTHER MATTERS

FROM the purely administrative point of view, the three months that have elapsed since our last article was written have not been very eventful. Riots have been few in number, the most noteworthy having been the disorders in Chittagong on August 31, consequent upon the murder of a Moslem police officer, and the renewed disturbances in Kashmir on September 22 and 23; both were of the communal type. Agrarian unrest continues particularly in the United Provinces and Gujarat, but does not appear to have become worse. In Burma murders, dacoities, and affrays between the forces of the Government and wandering rebel bands are still reported almost daily, and no one in Delhi appears to pay much attention to them, or to know how a revolt which has not been in progress for over ten months can be suppressed. At the end of July, when our last article was in course of preparation, there had been a sudden revival of terrorist outrages—the attempt on the life of Sir Ernest Hotson, the stabbing of two British officers in a railway train, and the murder of Mr. Garlick having occurred within a few days of one another. Subsequently there was a lull, the attacks on the Commissioner of Dacca at Tangail on August 21, and on Khan Bahadur Ahsanullah at Chittagong on August 30, having been the only noteworthy crime of this nature between the end of July and the end of October; but within the last week there have been two further outrages of the worst type, the attempts on the life of Mr. Durno, in Dacca, and Mr. Villiers, in Calcutta, having been almost simultaneous. In an endeavour to deal with the situation in Bengal, the Viceroy has been compelled to promulgate an Ordinance extending the scope of the Bengal Criminal Law Amendment Act; but none but the most optimistic believe that measures such

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as this can stamp out terrorist crime altogether. As regards the Congress, throughout the three months the various leaders, although they have kept quiet for fear of embarrassing Mr. Gandhi, have been by no means inactive, and there is reason to suppose that their preparations for a renewal of the conflict with the Government have made considerable progress. The members of the Working Committee might, of course, if they decided on the resumption of civil disobedience this year, find it difficult to arouse the same desire for gaol life among their followers as on the last occasion ; moreover, funds to finance an extensive campaign must still be short. But it is advisable to remember that the success of the 1930 movement took most authorities here by surprise ; that loyalists have been greatly discouraged by the events of the last few years ; that the general economic depression and the imposition of fresh taxation have rendered the Government unpopular both among the peasants and the middle classes ; and that many of the influential *zemindars* have been estranged by the policy adopted with regard to the remission of rents. While, therefore, there might be less active enthusiasm for civil disobedience, were it renewed within the next few months, there is nevertheless a good deal of latent hostility to Government seeking to find a vent.

As this article has already extended beyond the limits it was intended to fill, the concluding paragraphs, describing the effects which the financial crisis of September had on the movements of Indian political thought must perforce be condensed. In any case, at the moment, an analysis can be no more than provisional, since the emergency session of the Legislature, convened for the purpose of passing the new Finance Bill, is not due to meet until three days hence. At the time the crisis arose in India, as in England, it had been believed for weeks beforehand, that something of the kind was inevitable—the Simla session of the Legislature was in progress, and opinion was therefore able to consolidate fairly rapidly. When the news was

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received on September 21 that Great Britain had abandoned the gold standard, and that the Viceroy had forthwith issued an Ordinance providing for similar action in India, but without establishing any relation between the value of the pound and the rupee, there was of course some consternation, but the general view was that the Government's action would prove popular. Ever since the rupee was stabilised at 1s. 6d. by Sir Basil Blackett in 1927, such nationalist leaders as were concerned with financial affairs had protested that so high a rate of exchange was contrary to the country's interests, and during 1930, there was reason to believe that a deliberate export of capital was being organised, particularly in Bombay, by individuals who stood to gain substantial profits by forcing the Government to depreciate the currency. The implications of the Ordinance therefore, although surprising, were by no means unsatisfactory; but when it was promptly followed by the Secretary of State's announcement that the rupee would be linked to sterling, instead of being allowed to find its own level, intense resentment was aroused. Into the technical details of the arguments used we need not enter. For it was clear that, even if India stood to lose in one way, she certainly would gain greatly by the fact that the cost of her sterling commitments would not be increased by the rupee depreciating *versus* the pound; moreover, the undertaking of the British Government to render financial assistance to India in certain eventualities was at the same time renewed. Actually, the indignation evoked by the decision taken in Whitehall was based far more on constitutional than on financial considerations. Not only had no reference to a matter closely affecting India's interests been made to the Indian Legislature, which was at the moment in session, but there were also grounds for supposing that arrangements provisionally made by the Viceroy-in-Council had had to be modified as a result of peremptory orders issued from the India Office. Such an incident naturally caused serious offence to Indian

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nationalists ; there was, moreover, a good deal of sympathy with them in European circles, since the conviction is growing that it is impossible to rule a country in two places at once, and that the intervention of Whitehall in all important matters of policy is tending to paralyse the administration at a time when strong government of some kind is imperative. Comments of this kind were also prevalent during the course of the negotiations between the Government and Mr. Gandhi in August. Had all three Indian members of the Viceroy's Council, and possibly the Finance Member as well, tendered their resignations over the currency question, it would have occasioned little surprise.

The emergency budget which Sir George Schuster shortly afterwards presented to the Legislature, and which is to come up for detailed discussion during the special session a few days hence, is certainly a drastic one, and it is difficult to predict its fate. On the whole, however, the prospects seem favourable. Substantial economies by way of retrenchment are to be effected, and the fresh taxation proposed is fairly evenly distributed ; and since the depreciation of the currency has given some stimulus to trade, the sacrifices required may, perhaps, be more easy to bear than appeared likely in September. But if it becomes clear, during the course of the next week or two, that civil disobedience is to be resumed, all estimates of the future course of events, both as regards finance and administration in general, will have to be revised.

India.

November 1, 1931.

GREAT BRITAIN

I. THE GENERAL ELECTION

THREE months ago a Labour Government was in office, supported in the House of Commons by 280 Labour members, over 50 Liberals and a few Independents. To-day a National Government is in power, supported by 473 Conservatives, 68 Liberals divided into two roughly equal groups, 13 Labour members and 2 Independents. The official Labour party can count on only 52 members in the House of Commons, and this handful, together with the Lloyd George family party of four, form the Opposition. Such is the result of a series of events culminating in the most sensational general election in British political history.

The story of these events, though dramatic, can be told almost uncontroversially, thanks to the volume of the revelations made by the participants during the election. The last issue of *THE ROUND TABLE** left the Labour Government struggling with the necessity of meeting enormous deficits in prospect for this year's and next year's budgets. It is now known that this deficit had been estimated at nearly £75,000,000 for this year and at £170,000,000 for next year. Moreover, these deficits, the growing world crisis and the ever mounting costs of the "dole" had profoundly shaken the confidence of the world in the value of sterling, and, besides this, foreign countries, also in difficulties, had been withdrawing their deposits from London

* See *THE ROUND TABLE*, No. 84, September 1931, p. 836.

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so as to increase their own liquidity. Concurrently with their task of balancing the budget, the Government also felt constrained to obtain credits in foreign currencies in order to prevent the depreciation of the pound—an original credit of £50,000,000 obtained by the Bank of England for this purpose having been almost used up.

The whole Labour Cabinet realised that the balancing of the budget was an essential preliminary to the restoration of confidence in sterling. They were substantially agreed also that the budget must be balanced on the principle of "equality of sacrifice," and part of the deficit would have to be met by economies and the rest by increased taxation. In their earlier discussions considerable progress was made in defining the details of a plan, which in its final form took shape in a "provisional" agreement to effect economies totalling £56,000,000 a year at the expense of the defence services, the civil service, the teachers, the police, and the unemployed. The agreement was "provisional" in the sense that it awaited, for confirmation, the details of the new taxation by which economy was to be supplemented. Since these details of new taxation followed in the main the principles laid down by Mr. William Graham,* it would appear that at one time the Labour Cabinet were ready to present to Parliament a scheme practically identical in principle and largely identical in detail with that subsequently presented by the National Government. Indeed, Mr. Baldwin, who was consulted as leader of the Conservative Opposition, has since stated that he believed that the Labour Government would face their task, and that he had promised them help in facing it on the lines foreshadowed to him. But when the plan was presented to the Trades Union Council, that body rejected it. It would, Mr. Henderson considered, be no use going on unless the Government carried their own people with them in the economies that they proposed. The

* See an article by Mr. William Graham in the *Daily Herald* of September 3 last.

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Cabinet became sharply divided and, after toying with the idea of a revenue tariff, finally came to an open rupture. The breaking point was the proposal to reduce the rate of unemployment benefit by 10 per cent.,* though it is doubtful whether unanimity would ever have been possible in face of the hostility of the Trades Union Council. This reduction was in itself less than other forms of retrenchment at the expense of the unemployed already agreed upon, and Mr. Alexander, one of the dissentient Ministers, had reported that an adequate cut in unemployment benefit as well as in the public services all round was essential to the acceptance of cuts in naval pay. Moreover, it had been found impossible to procure the required foreign credits without increasing the amount of the proposed economies. Nevertheless all the members of the Cabinet except the Prime Minister, Mr. Snowden, Mr. Thomas, Lord Sankey, and Lord Amulree resigned.

Mr. MacDonald might easily have given up also, but at the request of the King he decided to try to form a National Administration. Mr. Baldwin, whatever may have been his ambitions for himself or his party, at once agreed to support him, and Sir Herbert Samuel, who was leader of the Liberal party during the illness of Mr. Lloyd George, also consented to co-operate. The new Government was formed for the particular purpose of balancing the budget and restoring confidence in the national credit.† On the completion of its task it was understood that Parliament would be dissolved as soon as circumstances permitted. A small Cabinet of ten members was formed. Parliament was at once summoned, and on September 10 Mr. Snowden presented a second budget which practically enacted the plan from which his former colleagues had broken away. Besides the economies already detailed — totalling

* The proposal involved a sum of £12,800,000.

† See Mr. Baldwin's statement on August 24. The official announcement stated that "the specific object for which the Government is being formed is to deal with the national emergency . . . when that purpose is achieved the political parties will resume their respective positions."

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£70,000,000 in a full year—Mr. Snowden proposed to raise (in a full year) £57,500,000 by increases in direct taxation, £24,000,000 by indirect taxation, mainly confined to beer, tobacco and petrol, and £20,000,000 by reducing the Sinking Funds to the actual contractual obligations contained in the prospectus of the various Government loans. This plan balanced on strictly orthodox lines the budgets of 1931-32 and 1932-33.

But the nation was by no means out of its difficulties. It would, indeed, have been foolishly sanguine to suppose that a balanced budget was a sufficient buttress for sterling. Other unfavourable factors persisted. The value of a currency depends just like the value of everything else upon the laws of demand and supply, and the demand for sterling continued to be less than the amount offered. One reason was that the balance of trade was unfavourable to this country, and on that account alone sales of sterling probably exceeded purchases by nearer £2,000,000 than £1,000,000 a week. A second reason was the continuance of financial panic in foreign money centres, which induced foreigners holding sterling securities or balances to realise them, and convert the proceeds into foreign currencies. A third reason was the lack of unanimity. The opposition of the Labour party gave the world the impression that the British nation was indifferent to its danger or at least not united in facing it. Finally, certain incidents in the Atlantic fleet at Invergordon were interpreted abroad as the possible beginning of a general naval mutiny and the prelude to a revolution against the National Government. The part that sailors had played in starting revolutions both in Germany and in Russia was recalled. What actually happened in this case was that the proposals for reductions in naval pay were promulgated without sufficient explanation or sufficient inquiry into the results upon individuals. A certain section of the Atlantic fleet refused duty. There is not the slightest reason to minimise the serious nature of this action, which was

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indefensible and deeply resented, as subsequent events showed, by the navy generally. But when the steps, which might well have been taken before the trouble, had been taken, and the Atlantic fleet had been sent to its home ports with the promise of inquiry into cases of hardship, no further difficulty was experienced. Meanwhile, however, the damage had been done. Throughout a critical week, the sales of sterling increased in volume and most of the credits of £80,000,000 obtained by the Government for its support were exhausted. On September 21, Parliament sanctioned the suspension of payments in gold, which had been the guarantee of the gold value of sterling, and the pound was left without artificial defence.

A new situation was thus created. The National Government had failed in its technical object of maintaining the gold standard, but it had balanced the budget and succeeded in achieving its material object of preventing a currency collapse which would have been reflected in soaring prices. The pound bought less abroad, but it still bought practically as much at home as ever it did. There was no internal inflation such as would start this country on the slippery slope of printing money. Nevertheless, no one could tell how long this relatively favourable situation would continue. The Government took immediate powers to correct adverse monetary influences and to check profiteering; but, after all, the powers of a Government in these directions are limited. It became clear at any rate that a National Government's task was by no means ended with the balancing of the budget. At this point controversial issues, so far dropped by mutual consent, began to appear. Clearly if the country was to be preserved from internal inflation, the trading accounts must be balanced. But how was this to be brought about? All sorts of suggestions were made; an international conference; the prohibition of certain imports; some maintained that the pound, no longer tied to gold, should be left to find its own level. This, it was said, would automatically

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rectify the balance of trade, and if the pound were kept, as it could be, between two extremes, there would be no risk of prices rising sufficiently to render an increase in wages necessary. Lastly—a suggestion which, unlike the others, raised a first-class party question—there were tariffs.

The immediate thing to be decided was whether the Government should go to the country. Some, notably Sir Herbert Samuel, the Home Secretary, and many of the Liberals, were for the existing Government continuing its task. The bulk of the Government's supporters, however, including the whole Conservative party, were for an immediate election. Foreign confidence, it was contended, could only be restored by a strong government with a fresh mandate, and such a mandate was in any case necessary, for the existing Government had only had an uncertain majority of 65, which would preclude it from taking highly contentious steps, even if it felt them to be essential to meet the needs of the situation. Besides, if the Government waited, their chances of winning an election later on might, as one of their opponents, Mr. Graham, had pointed out, be less rosy. They would certainly have to do a number of unpopular things, and a full five years term would not be too long for their purpose. Those opposed to an election considered it both unnecessary and risky; unnecessary because the Government had still two years to run, and the national emergency, their official *raison d'être*, still persisted. The people's support could, they claimed, be assumed. The Government, moreover, had not as yet an agreed policy, and an election would, it was contended, only confuse people. As regards risk, it was felt—an anxiety that was largely shared by the City—that the uncertainty, which must prevail during an election campaign, would probably still further depress trade, and with it the pound. It would, at all events, distract Ministers whose entire energies were required for their task. After all, too, the result of the election might not be so satisfactory as was hoped. It was also felt that

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Labour, nonplussed by the situation, might, if only to save its face, commit itself to an extreme programme, and in any case bitterness would result from the election, and the chances of bringing every party into the National fold be lessened. In some quarters the Conservatives were accused of forcing an election for party purposes. But it is unnecessary to pursue this matter further. In the end, an immediate general election was decided upon, the Liberal supporters of the Government acquiescing, in spite of Mr. Lloyd George's disapproval.

The question of the form of the appeal also gave rise to disagreement, but after a fortnight spent in search of a formula which would reconcile all differences, the Prime Minister again cut the knot. He decided to go to the country on a simple national appeal—a doctor's mandate, as he called it. He would ask to be granted a free hand to use any and every method, including tariffs, expansion of exports and contraction of imports, commercial treaties, mutual economic arrangements with the Dominions or any other expedient which might be found useful to save the nation from a currency collapse, and he issued a manifesto in this sense, upon which the political parties ranged themselves in a new order.

The dividing line at the election lay between those who believed that the danger to the currency was the vital consideration of the hour, and those who, either denied the existence of such a danger, or thought it less formidable than some other danger. To this second category belonged the official Labour party, who fought the election on the contention that the whole national emergency was a capitalist manœuvre—the so-called "bankers' ramp"—and on a programme the main planks in which were the reversal of the cuts in the services and unemployment pay, the conversion of privately owned industries into public utility corporations, the control by public boards of imports, exports and investments, the removal of the control of the banks from private hands, the nationalisation

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of the land, and free trade. Mr. Lloyd George had supported the formation of the first National Government but was throughout strongly against an election. He now declared that it was a Tory ramp—a plot by the Conservative party to obtain power to impose a general system of protective tariffs under cover of a national appeal, and he advised Liberals to vote for Labour rather than for the Government. The Liberal party, however, ranged itself behind the Prime Minister, though it was divided into two sections—one led by Sir John Simon, the nucleus of which was formed by those who had disapproved of the former policy of supporting the Labour Government, and the other by Sir Herbert Samuel, which shared Mr. Lloyd George's fear of tariffs, but not to the extent of refusing to participate in the Prime Minister's appeal. The Prime Minister himself led a small band of candidates described as "National Labour," whose success was an astonishing feature even in so astonishing an election. Mr. Baldwin brought to the National cause the whole of the Conservative party. He himself showed moderation and loyalty to the Prime Minister during the contest, defining the issue as the defence of the pound—tariffs, in his view, were useful, but subordinate to that end. The bulk of the party followed this line, but certain members, of whom the most prominent were Lord Beaverbrook and Mr. Amery, did their best to make the election a fiscal dog-fight. How mistaken they were appears from the fact that the candidates whom they supported were relatively the least successful of those championing the National cause. Had the advice of the extreme protectionists been taken, there would have been many three-cornered fights, but this danger was in fact generally avoided. The result was an unprecedented triumph for the National Government. Every one of the Ministers in the late Labour Cabinet who had resigned, except Mr. Lansbury, was defeated, and of the junior Ministers only Sir Stafford Cripps, Major Attlee and seven others were returned. The greatest personal

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triumph was the victory of the Prime Minister in his old constituency, but the reasons for his victory prevailed generally all over the country. It is widely believed that the bulk of the women's vote was cast for National candidates. The most telling arguments for the National cause—advanced by Mr. Snowden in a series of devastating addresses—were that the Labour leaders had run away from their duty; that their victory would mean irretrievable ruin, endangering all savings (Post Office savings among the rest); that the one issue was whether these men should be returned or a strong National Government determined as it had already shown, to restore confidence at home and abroad. The municipal elections which followed a few days later went much the same way. No doubt the National candidates benefited as much from the mistakes of their opponents as from their own merits. Mr. Henderson and his colleagues protested too much, always in a dangerous line. Moreover they took up an almost impossible position in fighting economies of which they had recently so largely approved, and it was difficult to unfurl the banner of free trade after their recent flirtation with a tariff. Above all they had, it was generally felt, resigned in consequence of the attitude of an outside body, the Trades Union Council, towards their proposed economic and, on top of everything, it was a mistake to offer people shouting for help in a bog a programme better suited to the millennium.

During the campaign the forebodings about the effect on the currency were not borne out. It remained remarkably steady right up to the declaration of the result. This was, no doubt, partly due to the growth of confidence in the victory of the National Government, but it was also largely a consequence of the troubles of other countries, especially the American banking crisis, which discouraged people from selling sterling to buy dollars.

What is to happen next? Labour has received a stunner of a blow. With a representation of only 52 members it

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reduced to comparative impotence in the House of Commons—some indeed think that it will never completely recover, and as it is there are divisions in its ranks. The party whip has been refused to Mr. Maxton and the four of his friends who were returned at the election, and the chairman of the Independent Labour party has suggested that a breach with his group may not be far off. There is talk too of a feeling that the unions might be better off if they looked after their own affairs. It must be borne in mind, however, that the very fact that the doors of Parliament are shut upon the Labour leaders is likely to lead to greater activity in the industrial sphere, and even in the political one, their party polled nearly 7 million votes out of close upon 21½ million. History shows, too, that big battalions have a way of melting. The National majority is the largest on record, but it is by no means the most homogeneous, and strength has dangers of its own. One result of the election has been to force Labour to reconsider its whole policy. A resolution was recently passed at a joint meeting of the Labour party and the Trades Union Council in favour of closer collaboration between the political and industrial wings in framing political policy, a course which, as *The Times* has pointed out, is easier to follow in opposition than in office. But the resolution evades the basic question ; is the Labour party to remain primarily a trade union party or to become a national party ? That this is a live question is clear from an article by Mr. Lees-Smith, Minister of Education in the late Labour Government.* In his view, the Labour party “ must descend from poetry to prose.”

Its policy must appeal to disinterested men of good will in all classes, for it is now clear that a Government with a majority will not be returned in this country on a pure working-class vote. It has hitherto confined itself to the direct redistribution of income by spending money on pensions, education, housing and social services at one end and increasing the taxation of wealth at the other end. This is the line of least resistance, but it is the acceptance of capitalism rather than socialism and the limits to which it can be followed

* See *The Spectator*, November 7, 1931.

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within a capitalist society are already in sight. Labour will now turn its mind to those problems of fundamental reconstruction which have always been its main objective, but still have to be worked out in practical detail.

Mr. Morrison, too, said much the same thing at South Hackney, and the *Daily Herald* (the Labour daily) noticed his remarks with approval.

The Labour party (he said) must review its policy, which remained fundamentally sound, in the light of modern economic and financial problems. . . . There must be more emphasis upon constructive socialism, which would win to their support the intelligent middle class no less than the intelligent working class. There must be less emphasis upon the cash benefits of Labour politics.*

But there are differences, too, among the reformists. Mr. J. D. H. Cole also considers the old idea of milking the capitalist cow not socialism at all, and, anyhow, played out. He recognises the need for fundamental reconstruction, but he does not wish to see Labour "a national, classless party." Its defeat, indeed, he puts down largely to the fact that it was going in that direction, and he believes that the coming Labour party will be far more extreme than the old one, though "its extremism will be essentially constructive and realistic."† To turn to the victors, however, the Conservative party is overwhelmingly preponderant in the House of Commons, but the bulk of its members must realise that they owe their presence there to their advocacy of a nation and not of a party policy. The Prime Minister is the man on whom all eyes are fixed. His personal followers are mere handful, but for all that he enjoys an exceptional powerful position, for he is the linchpin of the National Government. His leadership is indispensable if it is to hold together. And there is a formidable rock ahead, on which the unity might split, the question of tariffs and the use for which they should be put, if it is decided that they are necessary to prevent a currency collapse. His will be

* *The Times*, November 2, 1931.

† See *The New Statesman and Nation*, November 14, p. 602.

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the decisive voice. But the Conservative party know that they would be storing up a defeat as great as their recent victory if it could ever be said that they had used the Prime Minister as a stalking horse, while the Liberals would find it difficult on their side to challenge successfully the impartiality of the man who has so recently had the courage to cut himself free from his old party in order to do what he thinks right for the nation as a whole.

In forming his new Cabinet the Prime Minister has given up the idea of having only ten members. There are now twenty—one Conservatives, three Liberals, two National Liberals and four National Labour. The principle of numerical strength has played no part in the selection, and the willingness shown by the Conservatives to content themselves with less than their relative strength might have led them to expect has made a good impression. For the immediate purpose in view the most important departmental posts are naturally those of the Chancellor of the Exchequer and the President of the Board of Trade. They are filled respectively by Mr. Neville Chamberlain and Mr. Runciman.

The victory of the National Government has gone far towards re-establishing foreign confidence, but the nation is by no means out of the wood—the dangers indeed which have to be met are, as is made clear elsewhere in this issue,* as great as ever, and they depend upon world factors, many of which are beyond the control of any single nation. The election has brought a breathing space. It will enable our problems to be considered without haste, but it must also be without rest. The National Government, like its predecessors, will stand or fall by the event.

* See the articles entitled *Great Britain and the Financial Earthquake* and *The World and the Crisis*.

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II. THE POUND AND INDUSTRY

ONCE the shock of the historic decision of September 21 had worn off, British industry, or at least British exporting industry, breathed more freely than it had done for six years. It was as if a load had been lifted from the back of every manufacturer north of the Trent. First anxieties naturally concerned the sharp rise in the sterling prices of imported raw materials and the difficulties over the adjustment of contracts in sterling. But these were soon realised to be more than offset by the competitive advantage of the exchange bounty upon British exports which follows the reduction in their gold price. We are still too close to the event to measure the full effects, but writing now, nearly seven weeks after we cut adrift from our gold anchorage, there are many grounds for hope that the expectation of industrial revival will not be disappointed. There are almost as many grounds for uncertainty; a few days or a few weeks may falsify the most cautiously drawn conclusion. The one thing that may count for most is the psychological reaction; the mood of depression and despair has been broken at last.

At the moment, the unemployment figures offer the most striking index of change. Improvement began to be reflected in the returns in the first days of October. Between September 28 (when the total for Great Britain reached the highest figure recorded, 2,824,772) and October 26, there was a fall of nearly 100,000. The decrease was unevenly spread. In the southern divisions—south of a line drawn from the Bristol Channel to the Wash—there was an increase in unemployment, mainly seasonal, of over 40,000. North of that line—in the midland and northern counties, in Wales and Scotland—there was a decrease of about 140,000. The largest fall was in the Midlands, where the number of registered unemployed

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dropped by 12 per cent., and in the north-western and north-eastern counties, where the drop was over 6 per cent. The improvement in employment was seen first in the textile trades—cotton, wool, lace, hosiery, linen, jute and silk; the boot and shoe trade; the pottery trades; motor manufacture; and in coal mining. Metals and the heavy industries have responded more slowly. The lighter metal trades moved first; pig iron production increased; but a revival in steel, heavy engineering and shipbuilding is much less in evidence.

By the side of the rosy pictures of industrial revival given in the newspapers, the unemployment returns might not seem too favourable. The lag between the first spurt in confidence and its translation into workshop and factory activity differs much from industry to industry. The increase in employment has affected first the "temporarily stopped"—those on short time or "stood off" for short periods. But as factories and mines that have been closed are slowly brought into production again, the numbers of the "wholly unemployed" are being touched, although not sufficiently as yet to offset entirely the seasonal increases (especially in building trade unemployment, which is above the normal), and whatever effects the economies in expenditure on public works may have. After the middle of November the unemployment figures may be affected by the administrative changes which are reducing the numbers drawing benefit.

The depreciation of sterling gives, of course, a two-fold stimulus to industry, through its operation as a bounty on exports and a check on imports. So far the exporting stimulus appears to have been the more immediate and important, and the advantage will remain so long as the gap between sterling and gold prices continues. Our main competitors in the export of manufactured goods remain on the gold standard, and as a considerable part of our raw materials is drawn from countries which have left gold, there is a strong balance on our side. The tendency to

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replace foreign imported manufactures by British in the home market may be slower to operate, as there are stocks to be absorbed, and these may have been increased during the last two months in anticipation of the introduction of a customs tariff. Moreover, it appears that foreign sellers, in a number of cases and for a time, are under such pressure to export that they are prepared to make concessions in price which will cut away some part of the "exchange tariff" advantage to the home manufacturer. As, however, 80 per cent. of our 1929 imports of manufactured goods came from countries still on the gold standard, and as only 50 per cent. of our raw materials proper came from countries now on gold, the ultimate advantage should be on our side, as the value of the finished goods is a good deal more than that of the raw materials used. The obsession of many manufacturers with a tariff for its own sake, and the rather hysterical outcry against all imports as "dumped" have tended to obscure the very real change that has taken place in the position of the home market.

The case of the cotton trade may be taken to illustrate the new situation of the exporting trades. In August it could be said that no more than 50 per cent. of Lancashire's active spindles and 60 per cent. of the active looms were at work; this is to leave out of account entirely the fifth of the machinery of the industry which was entirely shut down. The reaction to the departure from the gold standard was immediate. For the first ten days or so, the increased business was mainly initiated in this country by producers who, having long relied on the weakness of the yarn market, now hastened to cover themselves for the moderate orders that had already been booked forward and by the home market which feared an early rise in prices. Foreign orders came in briskly in the early days of October. Between September 21 and November 2 there was a drop of 62,000 in cotton trade unemployment in Lancashire, of which 12,000 was among the "wholly unemployed." This represented a decrease in the per

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centage of insured workers unemployed from 41.3 to 29.1. The increase in production was probably less than these figures may suggest, but it received a good deal of public notice because whole districts in Lancashire were suddenly raised from the depths of depression to an activity which they had not known for two years. Other districts, whose types of goods had not yet been called into demand, were for the time little influenced.

As the revival will not be reflected in the Board of Trade returns until November, quantitative estimates are hazardous. The most important demand came from China, where since the war Lancashire's loss of trade to Japan has been catastrophic. Chinese purchasing power has increased with the sharp rise in the price of silver, but currency conditions have had a powerful ally in politics. The anti-Japanese boycott, which followed the Manchurian trouble, diverted to Lancashire Chinese orders for yarns to supply the Chinese mills, and for cloth, and lines of goods have been asked for which Lancashire merchants had long ago given up for lost. Anti-Japanese feeling has also spread to the smaller Far Eastern markets, where Chinese merchants have influence. There is further a normal seasonal increase in business to be taken into account. It is, therefore, not easy to assess the weight that should be given to the monetary factor. But it is clear that in all the markets in which Japan has been a formidable competitor—in China, South Africa, Egypt, Iraq, the Near East, Australia, East Africa, and so on—a definite handicap has been imposed on her trade, a handicap that is felt both in gold standard countries and in those that have followed sterling. In most of these countries Lancashire has experienced an increase of demand.

It would be a rash assumption that sterling depreciation of itself is enough to create an automatic transfer of trade from Japan to Lancashire. It was commonly said a few months ago that Lancashire goods were about 15 per cent. too dear to be competitive. If this could be taken as the

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measure in which British costs were too high, it would seem to have been overcome in some branches of trade. It is now calculated that, allowing for the increased cost of cotton in sterling (the price is set by the United States, and cotton in India and Egypt moves in sympathetic relation, although these two countries have followed sterling), Lancashire can sell plain grey cloth of the type Japan has almost monopolised in the East at a reduction of 15 per cent., and the more finished types of goods at even greater reductions. Japan, however, has revealed considerable elasticity in competition, and has cut the prices of her standard goods since September 21. In Australia, even after sterling left gold, and in spite of tariff discrimination, Japan could sell at $7\frac{1}{2}$ per cent. below Lancashire in some lines. Japanese competition has by no means been disposed of; the most that can be said is that the fight has become more equal. The morals which trade missions and trade advisers have drawn from the decay of Lancashire's Eastern connections still need to be pressed home. Moreover, if Japan should be forced off gold, as it is possible she may be, Lancashire's position would be, in relation to her most dangerous competitor, as bad as ever.

Awakening interest is reported from nearly all Lancashire's markets, even in India and South America, which have been so much depressed through the weakness of commodity prices. Many orders can be traced to a transfer from European competitors who remain on gold—from Italy, Switzerland, Czechoslovakia, and Holland, and (in the trade with South America and Canada) to a transfer from the United States. In Europe itself, more orders have been booked, but little is hoped for until general financial conditions improve. All this would be a good deal more encouraging if there were any conviction that the spurt in Lancashire trade is part of a world revival. Some evidence exists of a slight increase in the world production of cotton goods in recent months, but the latest movements appear to be no more than an increase in Lancashire's share at the

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expense of other producing countries, many of which are hardly less depressed.

Many of the conditions which apply to the cotton trade revival hold good of the other industries in which unemployment is falling. In the coal industry, for instance, the improvement is not uniform, although production has gone up and quotas have been increased. The departure of the Scandinavian countries from gold has given British exporters a marked advantage over Germany and Poland, but one which those countries are striving hard to counter. In some other European markets the British exporter has to face bounties and licences and import regulations which may whittle away much of his gain. The difficulties of foreign exchange—through the lack of facilities for forward dealings, and the restrictions on exchange transactions which exist in most countries—have also hampered business, and have deterred manufacturers and merchants in many industries from putting forward the effort needed to take up or capture foreign orders.

The cheerful tone of industry has its counterpart in the labour situation. The movements for wage reductions have, for the moment at least, been sidetracked. There has, however, been no movement in the other direction, and the estimates of the London and Cambridge Economic Service suggest that an increase in the cost of living index serious enough to justify higher wages is hardly to be expected.

Optimism runs so strongly that the dangers, external and internal, receive less than their share of attention. At best our hold on prosperity is precarious. A further fall in world gold prices, a nearer approach of sterling to gold parity, the forcing of other countries off gold, or the contraction of the channels of trade by new restrictions would neutralise our advantage. No lasting revival can be looked for while the world depression remains so intense. Even if the credit crisis is miraculously overcome without further catastrophe, the problem of Great Britain's high costs is only

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partially solved. Industrial reorganisation and the correction of wage disparities, have become no less vital. The Economy Act and the Anomalies Act will between them go a long way towards removing the features of the unemployment insurance system which have hampered industrial flexibility, but they are not a substitute for the thorough reform that we may look to the Royal Commission to propose. The old individualist Adam, whom depression had bruised but not destroyed, is rising again in the cotton and coal industries and improved demand is being used as an argument for dropping all attempts at a unified policy. The cotton industry may shortly pluck up courage to apply to Parliament for the creation of a statutory body to raise funds and administer them in the purchase or immobilisation of surplus plant. This may put a strain on the new Parliament hardly less severe than that which the question of the continuance of the coal marketing schemes may impose. In some other industries it is much to be feared that preoccupation with the prospects of tariffs may interpose a fresh obstacle to internal reorganisation.

IRELAND : EVENTS IN THE FREE STATE

I. THE FALL OF THE POUND AND THE INTERNAL UNREST

ALMOST alone among their European confrères our politicians spent a quiet and well deserved summer holiday. Amidst the Kerry mountains, in Breton villages, on the wild coast of Connemara and in similar places they have enjoyed such fresh air and sunshine as this terrible summer afforded. But in the end the rumblings of the economic crisis reached Dublin, and the fall of the pound from the gold standard brought them rushing back to duty. The British economy budget had aroused little more than a passive sympathy with our neighbour's plight, and few, save close students of the situation, realised the instability of sterling. A few days before the crash came Mr. J. W. Dulanty, our Commissioner in London, had pointed out that it could only be regarded as unfortunate for British manufacturers' and workers' interests that trade with the Free State was becoming so lopsided, and that British purchases of Irish produce had declined so heavily. It was difficult, he declared, to see how the Free State could continue to maintain its comparatively large purchases in England if the British market became still weaker for Irish commodities. As soon as the financial crisis burst the necessity and chance of redressing this situation became more apparent, and Mr. Cosgrave, in a sensible message to the nation, exhorted the people to buy first

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Irish produce and manufactured goods and afterwards those of Great Britain in preference to those of foreign countries. Under the Currency Act of 1927 our pound is anchored to sterling, and there is therefore no exchange rate between the Free State and Great Britain. There is no country in the world better situated than we are to supply just what the British consumer wants in the way of food, and there must be something wrong somewhere if we are now not able to take a leading place in British markets. Naturally, the Fianna Fail party, apparently oblivious of these facts, have demanded that we should immediately sever our connection with sterling and protect our industries behind a tariff wall, or, if necessary, an absolute embargo. They propose that a central bank should be created in Dublin and that our currency should be made independent. At the same time they attack the Government for not enforcing economy, quite oblivious of the fact that it was largely to deflate the Fianna Fail promise of complete de-rating that the Government were foolish enough to introduce partial de-rating this year, in the teeth of the majority report of the special commission they set up to inquire into the matter. Mr. McEntee, one of the leading Fianna Fail deputies, in a letter to the press, suggests that the cause of England's financial crisis was that France had decisively defeated Great Britain in the struggle for the political and financial control of Europe, and that all through this struggle Mr. Cosgrave's Government, the Anglo-Irish bankers, and the Free State Currency Commission, had been on the side of Great Britain against France. Now that France had won and Britain had lost we must share with Britain the consequences of that loss. Doubtless, if England had backed France in her plans to smash Germany, Mr. McEntee would have been equally shocked and accused Mr. Cosgrave of similar evil designs. The Leader of the Labour party, Mr. J. T. O'Connell, T.D., prophesies that the Free State is facing up to a state of emergency almost as great, if not as imme-

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diately apparent, as that which has recently overtaken other countries, but his remedies might be best described as tepid and diluted socialism of a not very practical nature. He would provide useful and remunerative employment for all who are able to work, and use the credit of the country for this purpose. Roads, housing, harbours and waterworks should be constructed with money raised by national loans, and the millions of Irish money invested abroad should be induced to return to the Free State for these purposes. These projects, if pursued seriously, might well land us in a similar position to that of Great Britain, when we tried to balance our next budget. The new National Centre party, which is led by Mr. P. Belton, a former follower of Mr. de Valera, has adopted a policy which includes the establishment of a central bank in the Free State, with a gold reserve and control of national credit, currency and banking ; the financing of national housing by the central bank ; securing the home market for Irish products, both agricultural and industrial ; the complete de-rating of all agricultural land ; the drastic reduction of all legal charges, and the codification and simplification of the law. This new party maintains that the interests of the agricultural community and of the country as a whole would best be served by maintaining a party in the Dail independent of all other parties, which would act in all matters political and economic on the directions of the party executive. In short, it represents a purely selfish agricultural policy of the narrowest kind, but, as neither Mr. Belton nor his followers represent any considerable section of the community, it need not be taken too seriously.

It would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation there can be little doubt that there would be an irresistible demand for the creation of

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Irish produce and manufactured goods and afterwards those of Great Britain in preference to those of foreign countries. Under the Currency Act of 1927 our pound is anchored to sterling, and there is therefore no exchange rate between the Free State and Great Britain. There is no country in the world better situated than we are to supply just what the British consumer wants in the way of food, and there must be something wrong somewhere if we are now not able to take a leading place in British markets. Naturally, the Fianna Fail party, apparently oblivious of these facts, have demanded that we should immediately sever our connection with sterling and protect our industries behind a tariff wall, or, if necessary, an absolute embargo. They propose that a central bank should be created in Dublin and that our currency should be made independent. At the same time they attack the Government for not enforcing economy, quite oblivious of the fact that it was largely to deflate the Fianna Fail promise of complete de-rating that the Government were foolish enough to introduce partial de-rating this year, in the teeth of the majority report of the special commission they set up to inquire into the matter. Mr. McEntee, one of the leading Fianna Fail deputies, in a letter to the press, suggests that the cause of England's financial crisis was that France had decisively defeated Great Britain in the struggle for the political and financial control of Europe, and that all through this struggle Mr. Cosgrave's Government, the Anglo-Irish bankers, and the Free State Currency Commission, had been on the side of Great Britain against France. Now that France had won and Britain had lost we must share with Britain the consequences of that loss. Doubtless, if England had backed France in her plans to smash Germany, Mr. McEntee would have been equally shocked and accused Mr. Cosgrave of similar evil designs. The Leader of the Labour party, Mr. J. T. O'Connell, T.D., prophesies that the Free State is facing up to a state of emergency almost as great, if not as imme-

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diately apparent, as that which has recently overtaken other countries, but his remedies might be best described as tepid and diluted socialism of a not very practical nature. He would provide useful and remunerative employment for all who are able to work, and use the credit of the country for this purpose. Roads, housing, harbours and waterworks should be constructed with money raised by national loans, and the millions of Irish money invested abroad should be induced to return to the Free State for these purposes. These projects, if pursued seriously, might well land us in a similar position to that of Great Britain, when we tried to balance our next budget. The new National Centre party, which is led by Mr. P. Belton, a former follower of Mr. de Valera, has adopted a policy which includes the establishment of a central bank in the Free State, with a gold reserve and control of national credit, currency and banking; the financing of national housing by the central bank; securing the home market for Irish products, both agricultural and industrial; the complete de-rating of all agricultural land; the drastic reduction of all legal charges, and the codification and simplification of the law. This new party maintains that the interests of the agricultural community and of the country as a whole would best be served by maintaining a party in the Dail independent of all other parties, which would act in all matters political and economic on the directions of the party executive. In short, it represents a purely selfish agricultural policy of the narrowest kind, but, as neither Mr. Belton nor his followers represent any considerable section of the community, it need not be taken too seriously.

It would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation there can be little doubt that there would be an irresistible demand for the creation of

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an independent currency in the Free State. That will not take place as long as the reasonable stability of sterling is assured, and the action of Denmark in deserting the gold standard in order to maintain its British trade has helped us to realise the fact that our trade with England, which is our principal market, could not be maintained if we deserted the pound. One strange result of the suspension of the gold standard in Great Britain was that, for the first time in recent years, the Irish bank rate did not, for several weeks, follow the Bank of England rate, but remained at 4½ per cent. Finally, the pressure of the English banks, exerted selfishly through the Belfast Bank (a mere satellite of the English Midland Bank), compelled the Irish banks to follow suit—perhaps not altogether unwillingly. For the first time some strong comments have been heard in Belfast business quarters on the methods of English finance.

But the question of our external financial policy is entirely overshadowed for the moment by a domestic issue of even more vital importance.* For the last few months there has been an alarming increase of political crime, obviously directed and inspired by the extreme wing of the republican movement. On July 19 a young farm labourer named John Ryan, who had given evidence in a recent prosecution for illegal drilling, was taken from his home at Cappawhite, County Tipperary, at midnight by armed men and was found shot dead next morning on the roadside with a label bearing the inscription : "Spies and informers beware. I.R.A." On August 12 the town of Cootehill, County Cavan, on the border of Northern Ireland, where an Orange meeting was to be held, was invaded by large bodies of men armed with sticks, a railway bridge leading to the town was blown up, trees were thrown across the roads and trenches dug, so that it was impossible to enter the town, and the platform at

* See THE ROUND TABLE, No. 84, September, 1931, p. 852 *et seq.*, and No. 83, June, 1931, pp. 626 and 627.

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the place fixed for the Orange meeting was destroyed. Strong forces of military and Civic Guards were drafted into the town immediately to preserve order, and a number of young men were arrested for having issued military orders in the public streets. The Orange meeting was not held, and a serious disturbance of the public peace was only narrowly averted. This occurrence had, of course, the natural repercussion of anti-Catholic riots in Northern Ireland. That the so-called Irish Republican Army was responsible for this demonstration is proved by a document issued to the press by its Army Council, dated August 22, in which it was definitely stated that "an imperialist meeting at Cootehill on August 12 was suppressed by order of the Cavan Brigade I.R.A." This communiqué further asserted that the enemies of Irish freedom are to be found equally within the Catholic and Protestant communities, and their rôle is to keep the masses of the Irish people divided by sharpening religious antagonisms. It was vital, therefore, that any attempt to raise sectarian strife should be vigorously suppressed. How any one, outside a lunatic asylum, could hope to avoid raising sectarian strife by suppressing an Orange meeting in the North of Ireland it is difficult to imagine; but such is the mentality responsible for the direction of the extremist movement in Ireland. The net result was that between sixty and seventy persons were injured in Armagh, Portadown, Lisburn and Belfast, whilst damage to Catholic property amounted to about £4,000. Other incidents which have lately taken place include the destruction by armed men of a hut erected by some boy scouts in the County Louth, the wounding of two men by nocturnal assailants in the County Clare, and a determined attempt to shoot the State Solicitor in the same county. How far these occurrences are the work of one organisation it is difficult to say, but it is abundantly clear that a determined attempt is being made by armed terrorism to overthrow established authority.

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No executive in a civilised country could tolerate such a menace and continue to exist, and immediately the Dail reassembled, on October 14, the Government introduced a Bill to deal drastically with the organisers of these disturbances. Prior to its introduction the Government members of the Dail and Senate were visited in their houses by members of the extremist organisation, who sought from them an expression of their attitude towards the Government's proposals—although these had not then been made public. These members have since been under police protection. The usual agitation amongst local bodies was also carried on, and an attempt made to secure their condemnation of the proposed legislation in advance. This was only partially successful. The Act, which is entitled the Constitution (Amendment) Act, was passed through both houses of the Oireachtas under a stringent closure motion in four days, and, as its title implies, encroaches upon the provisions of the Free State Constitution, in which careful provision was made for the liberty of the person, free expression of opinion, and trial by strict processes of law. It creates a new article of the Constitution, to be known as Article 2 (a). This article establishes a tribunal composed of five military members for dealing with political crime. This tribunal wields powers such as no judicial authority has ever exercised before in Ireland. It will control all the functions of justice within its sphere, including the death penalty, and there will be no appeal from its decisions, although the Executive Council may pardon convicted persons and remit the punishment imposed. Offences may be brought before the tribunal on the certificate of an executive minister, and its jurisdiction includes political cases now awaiting trial before the civil courts. Furthermore, the police are armed with new and exceedingly drastic powers for the suppression of unlawful associations and newspapers, and for the arrest of suspects. An order of the Executive Council declaring that, in its opinion, any association is unlawful is decreed to be conclusive.

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evidence that such association is an unlawful association, and the special tribunal is given power to close buildings which are being used for certain unlawful purposes. A remarkable section of the Act has been drawn up to meet the case of the possible kidnapping, wounding, or death of a deputy or senator through the unlawful act of any other person. In the event of such act preventing any member of either house of the Oireachtas from taking part in its proceedings, the Governor-General may, on the advice of the Executive Council, appoint a substitute and (or) adjourn either or both houses of the Oireachtas. There can only be one justification for such a measure, and it was made clear by Mr. Cosgrave in proposing the closure motion, namely, that if the State does not kill the existing lawlessness it will kill the State. In support of this contention he was able to point to the long list of recent crimes and incidents already referred to, and to the public statements of their organisers, the cumulative effect of which conclusively proves that there is a far-flung armed conspiracy to upset the Free State. This conspiracy has, as he pointed out, successfully paralysed the whole machinery of trial by jury and the work of the police in dealing with political crime. It is notorious—and indeed Mr. Cosgrave admitted it—that the ordinary civil judges have refused to deal with political crime, and therefore a military tribunal is necessary.

It is unfortunately only too true that the present practice of political murder and terrorism in the Free State is an evil inheritance from the methods employed by the Sinn Fein leaders during their struggle with England, and in this respect our present Government is only reaping what it has sown, nor are Mr. de Valera and his friends in any better plight. Every argument that was used to justify the attack on established authority by the gun under British rule is being used now, with just as little moral right, to justify the overthrow of the present Government. Those who preached, before 1921, the doctrine of "killing no murder" where the ends were political—and they were, unfortunately,

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often those responsible for the moral leadership of the people—are directly responsible for the present condition of the Free State, and the end of the bloodshed is not yet. One doubts if it can ever end until, as a nation, we definitely admit that such a doctrine never was and never can be right. Such an act of national psycho-analysis might rid us for ever of the assassin. The vital question of the hour is, however, whether the people of the Free State will now, once and for all, decisively repudiate such methods, which can never lead to anything but anarchy and ruin. As Mr. Cosgrave pointed out, the test of the capacity of a people to maintain a stable State in existence lies in its determination to defeat these evils. We are now, as he said, being put to that test, and on the firmness of our action here and now depends the whole life of our State, as well as our good name before the other civilised peoples of the world. There is every reason to believe that our people, who are fundamentally moral and conservative, will rise to the occasion. It is remarkable that, in spite of intimidation, the Government and Independent members voted solidly for the Bill, and that two prominent members of the Labour party, Mr. D. Morrissey, T.D., Deputy Speaker of the Dail, and Mr. R. S. Anthony, T.D., one of the members for Cork, joined them in spite of the decision of their own party to vote against it. Fianna Fail has made no real attempt to controvert the catalogue of crime and intimidation presented by Mr. Cosgrave. It has justified itself by asking the Government to resign, and by insinuating that if the oath of allegiance were eliminated from the Constitution, all would be for the best in the best of all possible worlds. During the debate in the Dail Mr. de Valera, it is true, made for the first time the, for him, remarkable declaration that there is no authority outside the Dail to take human life, and that "if there is no authority in this House there is no authority anywhere in the country to rule," but he was careful almost to destroy this statement by suggesting that the present Government were only the successors

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of the British Government, and that the ordinary law was sufficient to deal with the crimes mentioned by Mr. Cosgrave, although it has not been found possible under existing conditions to bring anybody to justice in respect of them. The debate, with the exception of Mr. Cosgrave's opening speech, did not reach a high level, and was chiefly remarkable for the repetition of the usual stale taunts as to what various celebrities did or did not do during the Anglo-Irish struggle. It is obvious that the Catholic Church is at last thoroughly alarmed as to the situation, and the Most Reverend Dr. Fogarty, Bishop of Killaloe, has not hesitated to declare that there was a group in this country which had adopted the methods and principles of Soviet Russia and was preparing the ground by murder, intimidation and propaganda. This, he declared, was the peril Ireland was now faced with, and a bigger peril, in his opinion, she never before had to deal with. The Catholic hierarchy, in a pastoral letter, read in all the churches on Sunday, October 18, have definitely declared the extremist military organisation to be immoral and one to which no Catholic can belong. They point out that the Free State has a democratic government and that no one has a right to seek to overthrow that government by force of arms, and that this holds good, not only of the present government, but of any government which may follow, as long as it secures the support of a majority of the people by constitutional means. The only criticism which can be passed upon this clear and accurate statement of Catholic doctrine is that it might have been written and promulgated with equal truth fifteen years ago, and that, if it had been, there would have been no necessity to do it now. Let us hope that it is not too late.

The pastoral also condemns the new political organisation called Saor Eire (Free Ireland) on the grounds that it is communistic in origin and principle. This organisation, which has been started by the ultra-extremists in order to counteract the Government's new move and also

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to prevent Mr. de Valera's party from stealing their clothes, held its first congress in Dublin on September 26 and 27. Its objects, as stated in its constitution, are to organise and consolidate the Republic of Ireland on the basis of the possession and administration by the workers and working farmers of the land, instruments of production, distribution and exchange, and to restore and foster the Irish language and culture. The means by which these objects could be achieved were by organising committees of action amongst the industrial and agricultural workers to lead the working class and working farmers in their day-to-day struggle, and to mobilise the mass of the Irish people behind a revolutionary government for the overthrow of British imperialism in Ireland, and the organisation of a workers' and working farmers' republic. It will be observed that this programme has a distinctly Russian flavour, and this has been resented by Miss Mary MacSwiney, who, although the most orthodox of extreme republicans, has, to her credit, refused to embark on a class war to attain her objective. In a recent communication to *An Poblacht*, the extremist weekly, she asks that some more exact definition of the term "workers" shall be given, and one that does not exclude any portion of the Irish people. It may be expected that the young gentlemen responsible for this bombastic document will not comply with her wishes, and that Miss MacSwiney, who is essentially religious, will not give her support to any movement officially condemned by the Church. The mysterious republican Dail, which is in effect Miss MacSwiney's private parliament, has issued a pronouncement in which it states that it deprecates any attempt to create class distinctions, or promote class warfare, and warns loyal republicans to be on their guard against any attempt to entice them away, or force them to surrender their allegiance. It is only too obvious that this body, which is composed in part of amiable and ancient doctrinaire revolutionaries like Professor Stockley, has ceased to have

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any effective control over the younger and more advanced extremists, and that it will soon be completely eliminated.

In a lively analysis of existing parties, the organ of Saor Eire describes the Cumann na nGaedheal as the mouth-piece of the Bank of Ireland groupings. It set out to use the Treaty as a "stepping stone," but the opposition developing into civil war pushed the party inevitably to the right until it has become exclusively the party of the big landowners, commercial, industrial and financial interests. Nor is it kinder to Mr. de Valera, whose party, Fianna Fail, it depicts as that of the Irish middle class who feel that the imperialists have hogged the good things the Treaty should have yielded them. The Labour party is contemptuously dismissed as a mere group of adventurers living under the shadow of the Government party, who have failed both the unemployed and the workers.

Acting promptly under the powers conferred by the new Act, the Government has constituted the military tribunal it provides for and has declared twelve associations, half of which are described as communistic, to be illegal. The proclaimed associations include, of course, the Irish Republican Army and Saor Eire. The others are mainly satellites of these two bodies. Sad to relate, they do not include Miss MacSwiney's organisation, Sinn Fein, or her personal Dail. This is the unkindest act of all. The prisoners awaiting trial will now be tried by the military tribunal, and until the results of these trials are made public no substantial developments are probable. It is unlikely that the Government will take any drastic action unless further crimes occur. The ringleaders of the Republican Army have fled the country.

Another problem, of a legal nature, which has necessitated immediate legislation, has arisen concerning the jurisdiction of the Circuit Court. This court was set up by the Courts of Justice Act, 1924, with a jurisdiction of £300, as compared with a jurisdiction of £50 enjoyed by the County Court which it replaced. The Bar of Ireland

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strongly objects to this increased jurisdiction, because it has reduced expensive litigation in Dublin to a minimum and decentralised the administration of justice—a step which was absolutely necessary in a relatively poor agricultural country like the Free State—and certain members of the Oireachtas have succeeded in preventing the enactment of rules for this new court, although these rules have been prepared, revised and presented to the Oireachtas on four occasions during the last seven years. Through this deliberate obstruction the Government was forced last year to set up a parliamentary committee to inquire into the whole working of the Courts of Justice Act, and this committee, although composed of carefully selected members friendly to the views of the Bar, was forced by public opinion and results to report that the Circuit Court jurisdiction should not be altered. Matters have now been brought to a head by a decision of the Supreme Court* that, owing to the absence of legal rules, the Circuit Court costs cannot exceed the very low scale fixed in the former County Court. This decision, by reducing barristers' fees to a minimum, has naturally brought the Bar to its senses, and the Bill which the Minister for Justice has introduced, and which will regularise the present situation, is not likely to encounter serious opposition. Seldom has there been a better example of how a powerful profession dealing with a technical matter can nullify legislation, and seldom has such a body been more completely and properly hoist with its own petard.

Amidst all these "excursions and alarms" Mr. de Valera's new daily paper, *The Irish Press*, made its appearance on September 5. It takes as its mottoes the Irish text of the Four Masters : "For the Glory of God and the Honour of Ireland," and the English slogan : "The Truth in the News." In make up it is a cross between the *Daily Express* and a parish magazine. Its sporting news is given the usual abnormal space common to most

* Quinn and another v. Stokes and another, July, 1931.

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modern papers. Its leading articles are moderate in tone and reasonable in argument. So far it has not descended to the baser personalities of Irish low-class journalism, and it claims that it will not mislead its friends nor misrepresent its opponents. Its advertisements indicate that its present revenue must be about one-tenth of that necessary to make it a commercial success, but this of course may rectify itself in time if its circulation increases. In any event, it may be predicted that it will at least last till after the general election, which is probably imminent.

Irish journalism, in its widest sense, has suffered a grievous loss through the death of Senator P. J. Hooper, Vice-Chairman of the Senate. He was for many years associated with the leading Irish Nationalist paper, *The Freeman's Journal*, which has now ceased to exist, of which he was successively London correspondent and afterwards editor during a very difficult period. In recent years he has acted as Irish correspondent for foreign newspapers, and was also engaged in writing a life of the late Nationalist leader, John Dillon. He was a brother of the late Mr. John Hooper, our brilliant Director of Statistics, who died last winter.* Gifted with a wide knowledge of affairs, a generous mind, and a well-balanced judgment, Senator Hooper's death leaves a serious gap in our national and political life, and he is mourned by a host of friends.

II. THE TRADE BALANCE AND OTHER MATTERS

THE Free State trade returns for the year ended June 30, 1931, show that the volume of trade during that period was the lowest since 1924. The total trade was £93,285,096 compared with £109,669,697 for the year ended June 1930—a decrease of £16,384,601, and the adverse trade balance, as compared with the same year, has increased by £689,921. The detailed figures show that the

* See THE ROUND TABLE, No. 82, March, 1931, p. 414.

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export of butter has fallen, and that there is a reduction of 45,230 in the number of cattle exported, representing a drop of £900,000 in value. More pigs and horses have been exported, but fewer sheep. Strange to say, the quantity of potatoes exported was five and a half times that of last year, and the gross value of this trade increased nearly fifteen times. The practically complete cessation of work in the Ford factory at Cork is accountable for £1,700,000 of the decline in exports during the half-year ended June 1931, so that the decline in the prices for agricultural produce cannot altogether account for more than £2,800,000 out of the total decline of 4½ millions in the same period, and, bad as the farmers' position may be, the lower prices for imported foodstuffs nearly compensates for this. But the trade returns do not tell the whole story. The revenue returns for the first half of the financial year show that receipts amounted to £10,916,000, as compared with £11,188,148 for the first six months of the 1930-31 period. This reduction of £272,000 for the half-year would be of little consequence were it not for the fact that a special duty on petrol and an extra duty on sugar were imposed in the last budget in order to meet the increased grant allocated for the relief of rates on agricultural land. The figures given show that the extra amount required has not been produced by the fresh taxation, and unless the second half of the year, which is generally better, shows a substantial improvement, there will probably be a deficit of the whole year, equivalent to the relief granted to the farmers. These facts suggest the necessity for stringent public economy, and probably increased taxation.

An interesting sidelight on the social habits of our agricultural population is afforded by the publication of an analysis of the conjugal conditions of our population in relation to occupations, derived from the recent census. It discloses that between the ages of twenty-five and thirty-five only 5 per cent. of farmers' sons are married, whereas 24 per cent. of agricultural labourers and 55 per cent. of

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builders' labourers between the same ages are married. In England the number of farmers' sons of the same ages who are married is about double. This pernicious practice is indeed the Irish farmers' method of birth control, and it is not uncommon to find men of from forty to fifty years of age still single because of the economic impossibility of setting up households of their own until they inherit the farm on their parents' death. Occasionally the old people assign over the farm when the son marries, but only if the prospective bride can pay a sum large enough to satisfy the family. These conditions increase the necessity for developing rural industries to absorb these farmers' sons and enable them to marry at an age at which they can rear healthy children under natural conditions. Emigration has in the past supplied an outlet for many of these young men, but this door is now practically closed.

Two important problems, both concerning the use of our roads, will have to be discussed by the Oireachtas during its present session. The first concerns traffic regulation, and a Bill dealing with this aspect of the matter was introduced in the Dail last July. It follows in many respects the new English Act. It provides for driving tests for the drivers of public vehicles, and compulsory third party insurance for all drivers. As regards speed, the Bill prescribes certain speed limits for heavy vehicles, including omnibuses, but imposes no speed limit on the private car ; it lays down, however, that a speed of more than thirty miles an hour shall be *prima facie* evidence in a charge of dangerous driving. Driving a motor car whilst drunk is at last made an offence punishable with severe penalties, including imprisonment up to six months in the case of a second offence.

The next problem arising out of the situation, namely, the paralysis of our railways through the increasing bus competition, is not so easy to solve.* It is known that it has been engaging the attention of the Ministry of Industry.

* See THE ROUND TABLE, No. 83, June, 1931, p. 631.

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and Commerce for a considerable time, and legislation is now believed to be imminent. An official communication states that the primary object of this legislation is not necessarily to preserve railways or to keep branch lines open, but to secure for the travelling and trading public the cheapest and most efficient services which, between them, the existing systems of transport can provide and continue to maintain. Thus it is not proposed to require railway lines to be kept open if adequate facilities at a lower cost can be afforded otherwise, nor is it intended that excessive road competition should continue in such a way as to waste the resources available for providing transport, and so ultimately to raise its cost. The principle enforced will be that transport exists for the purposes of trade rather than trade for the purposes of the parties concerned in transport, and the goal aimed at is to bring about a more economic distribution of traffic over road and rail, based on the capacity of each system to provide the services that present conditions necessitate, at a cost which the traffic can bear. As the policy embodied in these proposals will probably involve the closing of a large number of the superfluous branch railways (which number about forty), it can be imagined that it will be strenuously resisted by the Labour representatives. The Labour party has in fact already presented to the Government a closely reasoned and constructive memorandum, demanding the nationalisation of the railways.

Another serious question which has recently been much discussed, and which also needs legislation on a large and drastic scale, is that of urban housing.* The Civics Institute of Ireland, in a recent important memorandum on this question, states that, in order to make an adequate attack on the slum problem, in Dublin alone provision should be made for the proper accommodation of about 18,000 families in the next ten years. They agree with Burke's dictum to the effect that human beings are not

* See THE ROUND TABLE, No. 77, December, 1929, p. 136 *et seq.*

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lay figures to be arranged and rearranged at will, but are to be dealt with as persons of pronounced habits and definite tendencies, and they consider that this must be borne in mind in connection with the matter of housing. At the same time, however, they claim that in the public interest there must be a general improvement effected of such a kind, and to such an extent, that environment will be a help—instead of, as at present, a hindrance—to a better standard of life. The Institute admits that the large amount contemplated for the provision of houses, both in Dublin and throughout the country, is a very serious matter, and suggests that the major portion of the cost would best be met by long-term loans, but that a substantial sum might be obtained from the public by the flotation at the same time of a short-term housing loan at a low rate of interest if this is done whilst the necessity for action is obvious. It is understood that the Dublin Corporation proposes to seek powers to borrow a million pounds in the near future in order to make a substantial attack on this social cancer.

A strange development has taken place in connection with the Government's policy of encouraging the use of the Irish language. A number of places were deliberately reserved in some of the public examinations, including the preparatory training colleges for teachers, for those who got a 75 per cent. qualification in oral Irish, in order to encourage candidates from the Ghaedhlacht, or Irish-speaking districts, but it has been found difficult—even with such inducements—to get the necessary number of applicants from these districts. It is now proposed to take a number of pupils each year from Irish-speaking families and to send them to suitable secondary schools for the purpose of giving them a free education and afterwards using them as teachers of technical subjects like domestic economy. It remains to be seen whether such spoon feeding is likely to be successful; it certainly cannot stay the rapid decay of the language, which is due to economic reasons beyond

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the control of any Government. The sad fact remains that the Irish language has now virtually ceased to be a language and has become an industry. Irish culture of a more vital kind will receive considerable advertisement from the tour which the Abbey Theatre Company is at the moment making in America. It may indeed almost claim to be the parent of the many small theatres which have done so much to promote and encourage native dramatic art in America, and although its actors speak English—or, shall we say, Anglo-Irish—it is one of the most distinctive and national of our public institutions.

Irish art has unfortunately suffered a vital blow through the death of Sir William Orpen, its greatest figure. He has been so long associated with English artistic life that it may perhaps be forgotten that he was really a typical Dublin man, that his earliest artistic training was received there, and that at considerable sacrifice he returned to teach in Dublin during quite recent years. He was essentially Irish, both in his outlook on life and in the development of his art. It is tragic that he should have died in the full maturity of his genius when, perhaps, his greatest work was yet to come.

The Irish Free State.

November 1931.

CANADA

I. THE MARITIME PROVINCES

SIX years ago the maritime provinces formed one of the political storm centres of Canada. Prolonged economic depression had given rise to a movement for maritime rights which, though its objects were often obscurely thought of and incoherently expressed, nevertheless embodied the deep discontent of the people. Some, more daring than the rest, said that the only maritime right worth talking about was the right to independence. The cautious majority contented itself with vociferous explanations of the ways in which the maritime provinces had been injured or neglected by the rest of Canada, together with demands, more or less specific, for redress, the dreadful alternative of secession being held as a bogey in the background. In those days it was popular to speak disrespectfully of the rest of Canada, and especially of the central provinces of Ontario and Quebec. It would seem that their outstanding characteristic was avarice, but scarcely any adjective was then too condemnatory to apply.

To-day all this has changed. The people of the maritimes, if not satisfied, are at least silent. The clamour that once threatened to produce a new and independent political group has died away into the murmur of party bickering. Observers may witness here the end of a political movement. Within the short space of a few years one can follow its rise, triumph and decline and see in miniature

Canada

the course followed by many more important agitations.
What is the reason for the change?

The maritime rights movement was the outcome of adversity; it was brought to an end by prosperity. The swelling tide of business activity in the United States and Canada in the years following 1925 gradually had its effect on conditions in the maritimes. Trade through maritime province ports, especially Halifax and St. John, grew in volume; the coal and steel industry was reorganised under the most favourable auspices after being torn for years by internal dissension aggravated by political machinations; a large plant for the manufacture of paper was established at Liverpool in Nova Scotia; and with the return of a measure of confidence in the future, building construction—and reconstruction—was stimulated to contribute its quota to the general activity.

In so far as the improvement in maritime conditions was due to this cause, no individual or political party deserves the credit. But it was not entirely due to this. Political activity, usually so ineffective, played its part here. Indeed, the handling of the maritime problem affords, on a small scale, quite an instructive example of the way in which wise statesmanship can help to charm the serpent of disaffection. (Events like these help one to understand why natives of these provinces have acquired a reputation for political astuteness.)

The contribution of politics to the amelioration of conditions in the maritimes has come partly from provincial and partly from federal sources. In 1924, in Nova Scotia, the Conservative party was returned to power by an overwhelming majority and replaced a Liberal Government which had administered the affairs of the province for some forty years. It is true that by no means all the abuses that enthusiastic Conservatives expected, and even hoped, to discover proved to exist. Nevertheless, the event shows the advantage of a fresh outlook and fresh energies. The administration of the finances of the province was re-

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organised and improved, following a thorough-going audit. A Royal Commission investigated the coal industry and made incisive recommendations, partly as a result of which comparative peace was restored between management and men. The distribution of governmental work among the various departments was altered for the better and a new department was created, charged explicitly with the duty of fostering the economic development of the province. The educational system, under the direction of a new Superintendent of Education, was much improved, thanks to the larger sums of money appropriated to this use. But, what probably seemed of most importance to the public, and was perhaps the outstanding achievement of the Government, was its success in securing assistance for the province from the Federal Government.

This is where the contribution of Ottawa to the solution of the maritime rights problem appears. Forced by the exigencies of politics to take cognisance of the movement, the Federal Government dealt with it by the familiar method of a Royal Commission. The governments of the provinces submitted their claims to it and the Commission speedily reported. Considerably to the embarrassment of the Federal Government, but to the jubilation of the maritimes, the report gave wide recognition to the provincial claims. Large increases in the Dominion subsidies to the provinces, and a reduction of 20 per cent. in freight rates within the maritimes, stood out among minor recommendations. Could these sweeping proposals be acted upon? Strong opposition was encountered and their fate was for some time uncertain; but in the end they were substantially carried out.

What does the future hold? In so far as the improvement is due to better provincial government one may dare to hope it will be permanent. There seems to be a little more independent thinking—and voting—than formerly. But this belief must be held cautiously and prayerfully, for the forces of degeneration in these matters are, like grav-

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tation, the persistent ones, and to move upward is to struggle.

The permanence of the federal contribution must be judged still more uncertain. Here it is not a question of the quality of the administration but the generosity of the financial—and equivalent—assistance. How long will this last? The thought recurs that the interests of the various sections of Canada collide at many points and the Government is therefore surrounded by a fierce struggle of conflicting interests in which the strongest must generally win out. When prosperity sheds its softening influence over public affairs the bitterness of the struggle is modified, and some satisfaction can be given, from an overflowing Treasury, to all parties. That was the happy situation in 1927, when the recommendations of the Duncan Commission came to be considered. But things are different now. The world depression, a feature of which is the desperate condition of the market for Canada's principal product, has had its withering effect upon public as well as private finance, and rich surplus has changed to gaping deficit. No one knows how long the lean years will last, but it seems that the process of readjustment will be longer and harder than most people would have believed possible two years ago. In circumstances like these, concessions having financial effects are not so readily granted, and bargaining in general is closer. If this, or indeed anything else, robs the maritimes of their present comparative prosperity the memory will not fail to be revived of how profitable, to its sponsors, from the standpoint both of economics and politics, was the maritime rights movement.

The Beauharnois Investigation

II. THE BEAUHARNOIS INVESTIGATION

THE outstanding event of the last session of Parliament was undoubtedly the investigation by a committee of the House of the Beauharnois power project and, of the relations of the Beauharnois Power Corporation with the two political parties, particularly with the Liberal Administration of Mr. Mackenzie King which was responsible for approving of the plans of the corporation.

The Beauharnois (or Soulange) section of the River St. Lawrence is one of the three important stretches between Lake Ontario and Montreal which are obstructed by rapids. It therefore has a vital place in the project for the building of a deep channel and the production of hydro-electric power which has now been before the people of Canada and the United States for over a decade.* These rapids lie in a stretch of the river some 14 miles in length between two broader portions of the stream named Lake St. Francis and Lake St. Louis. The section lies wholly within the bounds of Canada, and also within the province of Quebec. Between the two lakes there is a fall of 83 ft., making possible a total production of almost two million horse power of electrical energy, or about two-fifths of the total possible production from the river. Probably one-third of Canada's entire population is concentrated within the area available for a market, Toronto being within easy reach of transmission to the west, and Montreal only some 25 miles to the east. With deep water navigation to the ocean and cheap power, the immediate vicinity may become one of the world's richest industrial areas.

As early as 1926 Mr. R. O. Sweezey, a civil engineer of Montreal, became actively interested in the Beauharnois site, and planned, as he stated in a letter, to

enlist with our syndicate two or three individuals, who in addition to providing some cash as their fair share, can assist us in getting

* See THE ROUND TABLE, No. 72, September 1928, p. 832, and No. 81, December 1930, p. 172.

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our rights extended or enlarged so as to develop the entire available flow of the St. Lawrence at this point. As the whole situation is entirely within the province of Quebec, our influence has to be exerted only in Canadian political circles—that is, at Ottawa and Quebec.

After purchasing certain rights to the diversion of water which dated back to the days of French rule, Mr. Sweezy and his associates pressed their case at Quebec, and in April, 1928, obtained from the provincial government permission to divert a maximum of 40,000 cubic feet per second for a period of 75 years at an annual rental of \$50,000 plus \$1.00 per h.p. on the understanding that the company would develop a capacity of 500,000 h.p. within ten years and that authorisation would be obtained from the Federal Government "in so far as its rights are concerned." The right was also given to expropriate land for building a canal.

The company then hastened to push the offensive on the Ottawa front. Application was first made for the right to divert ultimately the entire flow of the River St. Lawrence, the company proposing that it would spend up to \$18,000,000 in completing the canal for navigation with locks and other necessary works. In the face of powerful protests, however, the company at a hearing arranged by Government on January 15, 1929, amended its application to a request for 40,000 cubic feet per second. The canal was to be built suitable for shipping, with a minimum depth of 27 feet, and was to be freely available for navigation at any time that the Dominion Government completed the locks, the land for such works being supplied by the company. On March 8, 1929, an order-in-council gave the Dominion Government's consent to the proposal.[†]

• P.C. 422.

[†] Later in the year permission was given the company to take over the right to divert another 13,000 c.f.s. previously granted to the Montreal Cotton Company. In 1931 the Quebec government gave its permission to divert still another 30,000 c.f.s., but this has not yet been passed at Ottawa.

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Twenty-eight conditions were imposed, among them being the following :

(II) The Company shall not commence the construction of, the works until detailed plans of construction and all necessary information respecting the said works have been submitted to and approved by the Minister, provided that such plans and information shall be submitted within one year.

Plans were submitted by the company on July 29, 1929. These were not approved then or later; nevertheless, the company commenced construction on its expropriated property on August 7.

On May 22, 1930, Mr. Gardiner, the Progressive leader in the House of Commons, delivered a powerful attack on the legality of the order-in-council and the financial manipulations of the company. Mr. Bennett, then Leader of the Opposition, evidently struck by the exposure, declared that power should be developed

under terms and conditions that enable such power to be available to the Canadian people on the cheapest possible terms. These resources are held by us from Providence in trust, not for the few but for all; they are held in trust for the Canadian people and not for the few . . . When I contemplate what those figures meant this afternoon, my feeling of resentment gets the better of me.

Mr. Bennett, however, asked Mr. T. L. Church, a Conservative member from Toronto, and a staunch upholder of public ownership, to drop his proposal for the annulment of the company's rights, and nothing came of Mr. Gardiner's protest. The general election followed, and the new Government under Mr. Bennett, faced with the staggering difficulties of unemployment and business depression, left the Beauharnois problem alone.

There the matter would probably have rested had not the Progressive and Labour groups in the House of Commons returned to the attack on May 19 last. Obtaining permission from the House to discuss "a definite matter of urgent public importance," they launched a sweeping

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indictment of the whole Beauharnois development upon the following lines: that the order-in-council was illegal because the Dominion Government "had no authority under the Navigable Waters Act to grant the right to divert and use this water for power development, and the whole Beauharnois development is without real legal foundation and contrary to the laws and treaty obligations of Canada"; that the company had prepared plans providing for the diversion of the whole flow of the river; that it had sold bonds on the representation that it would eventually get the whole flow; that its plans of construction had not been agreed to by Government as required in the order-in-council, in spite of which a canal big enough to take the whole flow was being constructed; and that "under this development, unfortunately, a gigantic alienation of the natural resources of this country to private interests for exploitation is taking place under the monstrous financial scheme that was fully disclosed to the House last year." Mr. Gardiner, of the Progressive group, declared that

the gigantic control, on the part of small groups of financiers, of these immensely valuable resources upon which, as the Prime Minister said last year, the life, the welfare, the happiness and well-being of millions of people in the future depend . . . is a matter of the gravest concern to the people of this Dominion. And any alienation of these resources to private interests by order-in-council must be investigated . . . In my opinion, the time is coming when, if necessary, amendments to the British North America Acts must be secured in order to give this Government authority to preserve the rights of the consuming public.

The immediate result of the debate was the appointment of a committee of the House for a special investigation. Premier Bennett admitted that the canal under construction was much larger than necessary for the diversion of 40,000 c.f.s., and that no plans of construction had been approved, but he offered no comment on the demand for annulment of the charter, and expressed the view that those who had invested in good faith must be

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protected. The committee sat from June 15 to July 22, and for over a month provided headlines for the newspapers from the Atlantic to the Pacific. It examined thirty-five witnesses, and its printed proceedings and report fill almost a thousand pages. It did not by any means investigate every aspect of the problem, but on certain points its revelations were sensational. Its finding may be briefly summarised. The charge was confirmed that the work of construction was proceeding according to plans which had not received approval, and that in fact the work was not in accordance with the plans that the company had submitted. It was found that the breaching of the Hungry Bay dyke necessary for the diversion had been carried through without governmental authority, and that the plans of remedial works for the protection of navigation had not been worked out. The opinion was expressed, however, that the general scheme of the work was not inimical to the interests of navigation, and should be carried through. The committee recommended,

That the Parliament of Canada take such action as may be within its power, and without prejudicing the rights of the Province of Quebec, to procure the development of this project in such a manner as will best serve the people of Canada.

That should the rights of the Dominion and the Province of Quebec come in conflict, every effort be put forth to arrive at a satisfactory agreement, so that the project may not be imperilled by delay.

That definite action be taken to preserve the rights of navigation and the complete jurisdiction of Parliament in respect thereto.

Much, but by no means the entire story, was laid bare with regard to the financial history of the company and the very great profits already realised by the promoters. The general result was summarised as follows :—

As the situation now stands, the promoters of the Beauharnois project, involving the exploitation of a great natural resource, have been able to secure to themselves a return of all moneys advanced

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by them or any of them, a profit of \$2,189,000 in cash and 1,000,000 class A common shares, which, if saleable at the market quotation of \$4 per share, would be worth \$4,000,000. This cash profit was paid out of moneys borrowed by the Beauharnois Power Corporation, Ltd., by the sale of its bonds.

To complete the project up to the point where 500,000 h.p. will be produced, they will require a further sale of bonds in a capital amount of \$46,000,000. If this were accomplished, the power project would have been constructed completely on borrowed money, and the promoters would be in control of this vast enterprise owning 1,620,000 of the class A shares out of a total issue of 1,799,995, and also the five management preferred shares, which for ten years give to the underwriters practical control of the company's affairs, and all of this without the present investment of any money.

On July 31 Premier Bennett made his statement of policy to Parliament. He strongly condemned the Beauharnois corporation for its attitude of defiance to Government. Asked why the company was allowed to proceed with construction although its plans were not ratified, he replied that there were before his Government no plans submitted within one year of the passing of the order-in-council as the order had required, and that the company took the view before the committee that all it was doing was digging a ditch on its own land. To the layman this sounds like legal chop-logic, especially as the order stated that the approval there granted might be cancelled "in case of failure by the company to observe or perform any of the provisions and conditions" which were then imposed. Mr. Bennett seemed to stand more firmly on the national interest when he declared that further diversions than those granted would render the river unnavigable in its natural bed, and that the Navigable Waters Protection Act contemplated no such interference by order-in-council and without reference to Parliament. As to restitution of moneys which investors might think had been misused, he declared that the Government had no control as it could not institute civil proceedings. Criminal prosecution was a matter for the provinces, but as the deputy Attorney-General of Quebec had been

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retained by the Beauharnois company, Mr. Bennett was satisfied there will be none."

To deal with the situation for the moment, Mr. Bennett had two Bills passed. By these the right of the Beauharnois company to divert 53,000 c.f.s. was ratified by Parliament, and the canal and its appurtenances were declared to be "works for the general advantage of Canada." Exactly what this may mean it is hard to say, but it appears that the project will go on as a private enterprise with a re-organised management more agreeable to the Government and the banks.

There is little prospect of St. Lawrence power—one of Canada's greatest natural resources—being developed as a public enterprise. Mr. Bennett is sharply opposed to any tendency towards government ownership or management of business concerns; Quebec is hostile to public ownership; and even Ontario, with its great publicly owned hydro-electric system, seemed to many to play the game of private exploitation when the Hydro-Electric Commission contracted in 1929 to take 250,000 h.p. from the Beauharnois company at \$15 per h.p.—a price sufficient to yield a handsome profit. It was not the first purchase of power from a private company, and the Commission defended its action in a public statement. Among its supporters there has, however, been a display of considerable uneasiness, especially as the agreement seems to have come at a very opportune time in connection with the financial and political operations of the company.

Finally, it may be observed that the Beauharnois issue has once more raised the constitutional question of the respective rights of the Dominion and provincial legislatures. From the point of view of the ultimate destiny of the Dominion as a united nation, this is perhaps the most serious aspect of the whole problem. The British North America Act can be amended only by the Parliament in London, and while there is no doubt that any proposal by Canada whereby she would secure the right to amend

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her constitution would be accepted in London, there is little evidence at present of a serious discussion of the problem in the Dominion. Powerful forces will be arrayed against any change in the present situation, because of fear of interference with minority and provincial rights. Under present conditions the Imperial Parliament may be called upon to face the difficult, thankless, and dangerous task of dealing with highly contentious constitutional problems for whose settlement the Canadian people should make themselves responsible. In spite of the clear intention of the Canadian framers of the British North America Act that the Federal Government should have strong powers in dealing with matters which it might consider to be of national importance, even although they lie entirely within one province, there has been a strong tendency in recent years to magnify provincial rights at the expense of Federal jurisdiction. This has shown itself in judicial decisions and in political pressure which could not be disregarded by either Liberals or Conservatives at Ottawa, especially as Ontario and Quebec, the two most powerful provinces, took the lead in pressing provincial claims. So far as the St. Lawrence is concerned, it is admitted in general that the Dominion has the right to protect and control navigation, and that the provinces have the right to develop power; but legal questions of far-reaching importance with regard to ownership and jurisdiction are unsettled. In 1929 certain questions of principle with regard to power and navigation were submitted to the Supreme Court of Canada, but the answers were indefinite, and the order-in-council was issued in a haze of legal uncertainty. Mr. King's Government, while contending before the Supreme Court for extensive rights of jurisdiction, appeared to adopt a very much weaker attitude in dealing with the Beauharnois application. Without infringing the right of a province to power which might be developed within its borders, the Dominion Government might, it was felt by many, have retained

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prestige and leadership with regard to a question of great national importance by refusing to deal with it piecemeal, and by seeking the co-operation of Ontario and Quebec in framing a national policy. Some of the reasons for the loss of that opportunity may be suggested by the story in the preceding pages. It remains to be seen whether the Dominion Government will regain the ground lost. The specific question with regard to Dominion-provincial rights in the Beauharnois project is to go to the Supreme Court. When that decision is given it may be possible to suggest what is meant by Mr. Bennett's Act of August 1, in which the Beauharnois canal was declared to be a work "for the general advantage of Canada."

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AUSTRALIA

I. THE STRUGGLE TOWARDS FINANCIAL REHABILITATION

THE period under review began bravely and optimistically enough, as may be read in the confident title of the Financial Emergency Bills which were introduced in all the Parliaments to carry out the resolutions of the Premiers' Conference in June. They were entitled measures "for meeting the grave financial emergency existing in Australia, re-establishing financial stability, and restoring industrial and general prosperity." The measures for implementing the Premiers' plan have now (with some exceptions which will be described below) passed into law. But the quarter has been one of disillusionment and anxiety, and none of the nation's leaders can see the outcome of our difficulties clearly enough to inspire us with courage and enthusiasm. Much has certainly been done already. But its effect has so far been negative rather than positive; we have been bringing the drift under control rather than getting the vessel back to her course. This phase has doubtless been common to the period of recovery from all previous depressions. But this depression has been so analysed and anatomised for the sake of the elector, and its end hailed so often for his encouragement, that opinion has become peculiarly liable to impatience and disappointment. Australian opinion, moreover, is only now beginning to distinguish clearly between those causes of our troubles which are really within our own control and those which are not, and confusion of thought on this point has encouraged the man in the street to dream that once the

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great public economies were made and budgetary equilibrium came into sight, there would be immediate signs of a return to industrial and general prosperity, heralded perhaps by financial aid from overseas. But the swift development of Britain's financial crisis dispelled this latter hope; an unhappy public began to realise at last that its sacrifices are not mere temporary adjustments to a sudden shock, but are only stages in the painful process of deflation towards a less expensive standard of life; budgetary equilibrium itself is still far distant. As the quarter closes, opinion is clutching desperately at the straws of hope offered by Great Britain's departure from the gold standard. If the new British policy brings to a head the whole problem of international debt settlement, it may offer to Australia, with other debtor countries, some prospect of relief. The other vital question, for Australia as for the agrarian communities of Europe, is whether the economic and social structure of the community can be held together pending an improvement in markets abroad.

The Conversion Loan

The Premiers' plan itself was fully dealt with in the last number of *THE ROUND TABLE*,* and it will be sufficient here to trace the main features of the attempt to implement it. Internal debt conversion and the reduction of all adjustable government expenditure (salaries, wages, grants and pensions) by 20 per cent. were to go on side by side. The conversion was controlled by the Commonwealth, since in the financial agreement of 1927 the Commonwealth has assumed liability for all State debts, and it was carried out in virtue of a variation of that agreement, signed by all the Premiers, and to be embodied in legislation by all seven Parliaments. The States have also had to pass legislation empowering trustees to convert securities held on trust. The amount to be converted was £556 million; securities on conversion were to be allocated among new

* See *THE ROUND TABLE*, No. 84, September 1931, pp. 895-903.

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securities whose dates of maturity ranged approximately between 7 and 30 years, at an interest rate representing on the average a reduction of 22½ per cent.; holders were urged to make definite application for the conversion of their holdings, but the Act provided that, unless actual dissent was signified, conversion would be automatic. The official appeal to bondholders was based solely on the financial difficulties of the Governments, and on the need for patriotic sacrifice from every section of the community, and the Act provided that holders who dissented should receive new securities maturing at the same date and bearing the same rate of interest as their existing securities. The result was eminently satisfactory; some £490 million was converted on application, and some £48½ million more by effluxion of time. This made up 97 per cent. of the total holdings. The holders of only the remaining 3 per cent. (£17½ million) dissented. The country actually had the welcome, though of late unhappily rare, experience of being cited in London as an example to be followed.

There remained the problem of what was to be done with the unconverted £17½ million. The treatment of dissentients had caused acute controversy at the Premiers' Conference in June, and the problem had been left unresolved at the instance of the leaders of the Opposition in the Commonwealth Parliament, so that no penal alternative might be threatened against dissentients, to mar the psychological effect of a voluntary appeal. At the same time, the Premiers' Conference made no attempt to conceal its determination that the sacrifice must be a common one, and that some way would have to be found of bringing in dissentients. "Although it is not specifically stated in this resolution," said Mr. Theodore, "it is agreed implicitly, and without any equivocation, that if people do not convert they cannot be allowed to go free of making a contribution to the national sacrifice." It was only on this express understanding that Mr. Lang agreed to the Premiers' plan. In the event, the vagueness of the future probably had

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greater coercive effect on bondholders than a specific threat would have done, and no holder supposed for a moment that if he dissented the Government would fulfil his contract to the letter. Penal taxation was freely discussed during the Conference ; but a very considerable proportion of the dissentients is understood to have been made up of holders whose securities mature either this year or next, and who are concerned with the availability of their capital to meet other needs rather than with any interest they may gain in the meantime. There was, however, no promise to pay off the unconverted bonds, as there was in the Goschen conversion of 1889. But the Premiers' Conference was faced at the beginning of September with the sheer impossibility of finding an additional £17 million in the near future to pay off the unconverted bonds as they mature. It fell back on compulsion and decided that—except in cases of proved personal hardship, for which it was thought that ample provision could be made out of sinking funds—the dissentients should have their holdings converted compulsorily by Act of the Commonwealth Parliament, which may require some complicated legal adjustment. The step must be profoundly regretted. It must to some extent weaken the good effect caused by the voluntary character of the main effort. Nor is the small amount involved any real justification where the principle of repudiation is at stake. The only point that can be taken in support of compulsion is, that the consent of the holders of the other 97 per cent. gives the same kind of warrant for extending like terms to the remainder, as is given in bankruptcy proceedings when the court makes an order based on the consent of a large majority of the creditors.

Reductions in Public Expenditure

The reductions in adjustable expenditure were treated (except in New South Wales, which is dealt with elsewhere in this article) largely as a simple matter of arithmetic, and

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while grants were reduced by an automatic 20 per cent, salaries were reduced on a scale more or less steeply graduated after the fashion of income tax rates. In the long run, however, indiscriminate economy of this sort may well turn out badly. If the reductions were to be temporary only, they would produce relatively little effect. But on the assumption that the country is now firmly set towards a deflation which will reduce general standards to levels comparable with pre-war days, a more scientific revision of expenditure seems called for. The whole Australian people, individuals and Governments alike, has indulged in many extravagances in the boom years, and the path of wisdom would now be to revise our activities in the light of what it is really worth while spending money on. Some things we have been doing we might now usefully eliminate altogether. In some directions, on the other hand, any reduction at all is folly, not to be justified even by reference to the plausible slogan "equality of sacrifice." It is a common error at the moment to think in terms of the persons on whom sacrifices are being imposed rather than of the work to be done, and the general sense of urgency obscures the long-term considerations, such as the extent to which salaries have in the past shared in the recent prosperity, which are essential to real equality.

So obsessing has the idea of "equality of sacrifice" become that the Parliaments of three States (New South Wales, Victoria and Western Australia) have included the Supreme Court judges in their scheme of salary reductions, on the same terms as members of the public service. The importance of preserving the independence of the judiciary was not so much overlooked as outweighed—with the support, it must be admitted, of a considerable body of public opinion—by the desire that no income should escape the general reductions. Thus, to reduce salaries, which have for the most part remained stationary for anything up to fifty years, may be both inequitable and even unwise, but is at least consonant with the spirit of the

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time. The strongest objection to this breach of British constitutional tradition—and it has been vigorously expressed—is that a modern democracy needs, not less but more than ever, a judiciary which has nothing to fear, or hope, from Parliament. It is understood that in all the States the judges have themselves offered contributions from their salaries; of the justices of the High Court, interference with whose salaries is prohibited by the constitution, some have offered to accept a reduced salary, others to forgo their travelling allowances.

Only one of the Australian Parliaments (in Queensland) has ventured, in making provision for reductions of expenditure, to do what the Imperial Parliament has now done, to substitute reduction by Order in Council for direct parliamentary regulation.

The reduction in wages and pensions has earned, as was recorded in the last number of *THE ROUND TABLE*,* the vigorous disapproval of the Labour party organisation. The Labour Governments in South Australia, Victoria and the Commonwealth had to break down opposition not only in the parliamentary caucus but in the local and federal executives of the party organisation. Mr. Hill in Adelaide, Mr. Hogan in Melbourne, and Mr. Scullin and Mr. Theodore in Canberra were strong enough to proceed with the plan, though the malcontents in Adelaide succeeded eventually in carrying a motion for the expulsion from the party of all members who had supported it. A special conference of the federal executive of the party organisation (six members from each State) was called at the end of August to consider this proposal, but rejected it by 22 votes to 13. In June, the same body had declared its hostility to this part of the plan, but had recognised that, to bring about the downfall of the Labour Governments, would be disastrous to the party. The desirability of averting a split in the party was just as great at the end of August, indeed more so, as several elections are beginning

M * See *THE ROUND TABLE*, No. 84, September 1931, p. 903.

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to draw near. It was, therefore, not surprising that a compromise was again reached, though the South Australian branch seems determined to persist in its original policy. The federal executive again declared that reductions in wages, pensions and social services cannot be accepted as any part of Labour's policy, since they violate the substance of the ideals and principles for which the Labour movement stands ; and it instructed Labour members, both Federal and State, that any further reductions of the kind must be resisted. This may perhaps be regarded as merely face-saving. The party organisation is not likely, at a time like the present, to risk the downfall of a Labour Government. The real significance of the resolutions passed at the party conference is rather to be found in the re-affirmation that the whole policy of deflation is wrong, and that the essential nature of the crisis is monetary and can be met only by a policy of monetary and banking reform. "Plenty of meals but no tickets," is one Labour journal's summary of the whole position. The left wing in the federal parliamentary caucus has begun to press again for the fiduciary note issue to which the party had pledged itself earlier in the year.

Reduction of Private Interest Rates

One other part of the Premiers' plan calls for mention—the reduction of private interest rates or, more precisely, reduction of interest on mortgages and on bank deposits and advances. Legislation to secure these objects has been opposed so tenaciously by the Legislative Council in Victoria, that the Victorian Financial Emergency Bill was delayed till nearly the end of September. The report of the Premiers' Conference had left the matter as follows:—

Concurrently with the reduction of bond interest must go a reduction in private interest. This is mainly a matter for the banks, who are co-operating to that end. Reductions of interest are being arranged between the Commonwealth Bank, the trading banks, and the savings banks, which will result in the rapid reduction in the interest on money required for trade and industry. This reduction

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of interest will be supplemented by legislation giving relief to mortgagors. This legislation forms part of the plan.

The real ground taken by the Victorian Legislative Council was that, while recognising the necessity for the reduction of private interest, it thought that such reduction would inevitably be made at once in all proper cases as a result of discussion between debtor and creditor, and, in the long run, by the operation of economic forces ; that legislative interference with private contracts was strongly to be deprecated ; and that in any case the legislation actually proposed was clumsy and unsatisfactory. The Government, in reply, drew a distinction between bank rates and mortgage rates. Its defence of the legislation as to bank rates was that the trading banks in Victoria seemed to be holding back in part from the reductions contemplated by the Conference. When they offered a reduction of one per cent. in rates for advances by October, a compromise was adopted under which the banks were included in the measure, but the provisions were to have no operation until proclaimed, with the consent of both Houses. As to mortgage rates, the Government's defence was that it was pledged to implement the plan "one and indivisible," and that legislation for the relief of mortgagors formed part of the plan. It was, however, clear that the draft mortgage legislation had been adopted almost without discussion at the Conference, and that the legal difficulties involved had scarcely been appreciated. Indeed a certain inattention to the legal aspect of the exceedingly complicated operations involved in the proceedings was a marked feature of the whole Conference. This was due partly to haste, and partly to the fact that, though efficient legal advice was available, its value was reduced to a minimum by the failure of the Conference, till a very late stage, to agree on the more important points of policy. The Victorian Legislative Council's stand, unpopular as it has been, has probably done the community a service, since it has directed close attention to the measures adopted. The legislation has, in some

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States (New South Wales, Victoria, Tasmania and Western Australia) proceeded by way of automatic reduction of interest rates, unless the mortgagee can satisfy a tribunal that, having regard to the relative position of borrower and lender, reduction is inequitable; in the other States (Queensland and South Australia) the onus is on the mortgagor to apply for a reduction, which he is entitled to get unless the mortgagee can show that it is inequitable. The scheme of the legislation provides generally for a reduction of $22\frac{1}{2}$ per cent. in interest, but with a minimum interest rate of 5 per cent.

The Budget Position and General Rehabilitation

Ever since Sir Otto Niemeyer's visit, the real centre of political interest has been in the Premiers' Conference and the Loan Council (at present practically indistinguishable in personnel and identical in function) rather than in any of the Parliaments. In the quarter under review, their principal function has been the "policing" of the plan. They met early in August to consider, partly a request from New South Wales for urgent financial assistance, and partly the budget plans for the financial year 1931-32 in the light of events since June. New South Wales was accorded the advance required in order to pay civil service salaries, but only on condition that Mr. Lang came into line in implementing the plan. The possibilities of budgetary equilibrium were carefully examined, and the Loan Council before it adjourned took the significant step of appointing a standing committee of under-treasurers and economists to examine continuously, and report upon, the budgetary position of each State, and its conformity with obligations under the plan. At the same time a similar organisation was adumbrated for the Premiers' Conference in the form of a permanent secretariat. Its first task was to gather information and report to a subsequent meeting upon action to relieve unemployment. Here were two important processes at work—not merely the first definite step in the

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transformation of the Premiers' Conference from a gathering into an institution, but a definite step also in facing the long-term problem of industrial rehabilitation.

The Premiers and Treasurers reassembled at the beginning of September to discuss the reports of the two committees. The budgetary position turned out to be disquieting. In June, allowing for such shrinkage of revenue as then seemed likely, the year 1931-32 was planned to produce a total deficit of only £15 million, which the banks agreed to finance. In September, it was clear that the deficit would probably amount in all to about £18 million; the New South Wales figures were only vague. Conferences with the bankers followed, but the banks would not undertake to advance more than £16 million for the year, leaving the Governments to make up the other £2 million either by fresh taxation or by fresh economies. As to unemployment and rehabilitation, the secretariat had had totally inadequate time to make a thorough analysis, but reported in grave terms. Employment cannot in the long run be increased, it urged, unless the country can export at world prices; it cannot even be kept at the present level unless the financial resources of the country are used to their limit to keep the wheat grower in production, to maintain the existing volume of employment on public works, and to provide or stimulate enough additional employment (e.g., on gold mining, paper pulp and fisheries) to set moving the gradual revival of business and enterprise. The secretariat's report therefore contemplated both a long-term policy of reduction of costs, a review especially of all forms of government assistance to industry, and an immediate policy of stop-gap measures in order to maintain the country's economic and social structure for the time being. The report caused a good deal of public disappointment; to the unthinking, because it was so grave in its outlook; to the more thoughtful, because its immediate recommendations seemed to be to keep on the old disastrous methods. The banks, after anxious conferences, eventually agreed with

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evident reluctance to grant still further credits, not indeed to the amount of the £16½ million, which the secretariat thought would be necessary, but at any rate to the extent of £3 million to provide a bonus of 4½d. a bushel on wheat of the 1931-32 season, and £4,250,000 for the first half of the financial year for public works already in progress. But, of course, nobody really expects a permanent solution along these lines, or from any action that can be taken within Australia herself. Without a rise in world prices the country is facing not merely a measure of default abroad, but collapse at home. In such circumstances the almost feverish interest with which the development of Great Britain's new policy is being followed, and its result canvassed, will be readily understood.

II. MR. LANG AND NEW SOUTH WALES

FROM its origin in 1891, the Australian Labour party has been strongest in New South Wales, and more particularly in Sydney. It might, therefore, have been predicted that in Sydney the party would produce its finest flower, its most logical and uncompromising leader. And, as Australians are fond of ideals but impatient of technique, Mr. John Thomas Lang only adorns the national type in showing himself more hearty in his zeal for the under dog than skilful in advancing his interests.

Since 1917 Australian Labour has become conscious of an affinity between the political regulation of trade and industry, slowly evolved as *socialisme sans doctrines* during the party's youth, and the economic philosophy of the Russian communists. Some of the inner group in the Sydney Trades and Labour Council have visited Moscow, and evidently share its hopes of a world-wide reconstruction of society. Possibly Russian example has confirmed the New South Wales branch of the Australian Labour party in its zeal for strict discipline. Certainly the distinguishing

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mark of Mr. Lang's leadership in the present Parliament, as compared with his 1925-27 term of office, is to be found in the caucus of 55 supporters who, under pressure from the party machine outside, support with steady docility the policies propounded by the Premier. At times there are private mutterings of revolt, notably from Labour members for country constituencies. But there is no revolt. The division bells break in upon every Opposition speech which threatens to damage the Government's prestige, and at their call the caucus files in full force before the tellers.

To what end? In name the Bills put forward by Mr. Lang differ little from those of earlier years or of other State Houses to-day. Mr. Lang's proposals for a drastic extension of industrial arbitration, for confiscatory taxation of all but the most moderate incomes, and for reduction of salaries in the public service, suggest that he and his associates see somewhere in the near future the communistic objective of the classless society. Instead of equal chances to rise and "fair and reasonable" treatment for the less lucky, Labour now seeks to dispense altogether with middle-class leadership.

Mr. Lang's election programme in October 1930 was, it will be remembered,* little more than an assertion of Labour's will to maintain governmental spending. Under his premiership and treasurership, the maintenance of the standard of living was to be hampered neither by the Premiers' agreement of August 1930, nor by the Loan Council. It had been evident, however, even before his election, that neither London nor New York would keep up the flow of loan money that this programme presupposed. Mr. Lang was, therefore, thrown back on local taxable fields which the Federal Government was already denuding, and upon the lending capacity of Australian investors and banks. In December 1930, to the dismay of his followers, he raised his predecessor's unemployment relief tax on wages and incomes from 3d. in the pound to 1s. Even so it

* See *THE ROUND TABLE*, No. 82, March 1931, pp. 435-441.

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was hardly adequate for the growing burden of the "dole." On June 15, despite all financial difficulties, the relief ration scales were increased by 25 per cent. Railway freights and fares, income taxation and every source of revenue continued to shrink, but Mr. Lang's commitments to powerful electoral groups did not allow him to check expenditure.

As he proclaims that the way out of the depression is to maintain the spending power of the public, he has been forced by the inadequacy of ordinary revenue to turn to any supplies within his reach. But such rough and ready methods as withholding from government creditors the money he needs for his civil servants and people "on the dole," have involved, either as a result of sheer rashness, or because incidentally he desired to destroy confidence in middle-class institutions, the closing for four months of the New South Wales Government Savings Bank. This bank, like all Australian savings banks, had been paying out cash at a steady rate ever since depression and unemployment set in. But in February the nerves of the depositing public were badly shaken by repudiation proposals* and by unchallenged press statements that the Government was not paying the interest that it owed to the commissioners. Withdrawals at once grew disproportionately greater than those from other savings banks, culminating in a violent "run" on the bank in April. On April 21 Mr. Lang asked the Commonwealth Bank board, who control the Commonwealth Savings Bank, to take over his bank. The depositors next day withdrew a million and a half pounds, and on April 23 the bank suspended payment with its cash reserves down to £214,085, although it had £7,218,469 "at call at the New South Wales Treasury," and £49,552,202 in securities, mainly of the New South Wales Government. Negotiations with the Commonwealth Bank went on for three months but eventually collapsed and, under pressure, Mr. Lang has reopened his savings bank under a

* See THE ROUND TABLE, No. 83, June 1931, p. 664.

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new Act, a new board of trustees and a new guarantee against political interference. Though empowered to borrow £10,000,000 on debentures, the new board has still to find enough cash to set the cycle of deposit and investment going again. Otherwise the depositors' only hope still lies in the absorption and liquidation of the old bank's assets by the Commonwealth Savings Bank.

Whenever he has sought accommodation through the Commonwealth Bank and the private trading banks, the New South Wales Treasurer has been met by the need of accepting the control of the Commonwealth Government and the Loan Council. Before Mr. Lang's accession to office the New South Wales Government's bankers, the Bank of New South Wales and the Commercial Banking Company of Sydney, had stipulated that open overdrafts would not be granted, and that ways and means advances would be made only against definite securities, such as Commonwealth Treasury Bills. Mr. Lang, finding his credit balances with his own bankers on the wane, asked the acting Commonwealth Treasurer, Mr. J. A. Lyons, to approach the trading banks throughout the Commonwealth for "temporary accommodation." The banks, however, saw no good reason why they should aid and abet Mr. Lang in what seemed an attempt to evade the control of the Loan Council. Through the Chairman of the Commonwealth Bank board and the Chairman of the Loan Council, they notified Mr. Lang that all borrowing by governments, whether in the form of public loans, Treasury Bills or overdrafts, should be controlled by the Loan Council in accordance with the resolutions of the Melbourne Conference in August 1930.

Mr. Lang next sought to escape out of the net of unified financial control through an apparent gap in the 1927 financial agreement on State debts. The Commonwealth, by the terms of that agreement, assumed responsibility for the payment of interest on the State debts. Mr. Lang, prompted by his Attorney-General, set out to exploit the position by refraining from paying the Commonwealth.

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Thus, surely, he thought, he would be able to use the interest money as "purchasing power" for his civil servants and unemployed. Who was to stop him? Would dog eat dog, and one Labour Government proceed to Federal execution against another?

Mr. Lang's default began on April 1. As he had calculated, the Commonwealth Government at once found in London £800,000 to meet the interest that should have been paid that day, plus exchange. Part of this sum, £243,000, the Commonwealth then recovered by stopping contributions from Federal revenue due to New South Wales under the 1927 financial agreement. For the balance the Commonwealth and the other five States issued a writ in the High Court of Australia on May 13. Further defaults by New South Wales, new payments by the Commonwealth, and writs in the High Court followed each other rapidly during the next few weeks, until the rest of Australia had paid to British and American bondholders £1,673,000 on Mr. Lang's account. The actions have not yet come on for trial, but the burden that Mr. Lang had cast on Australian shoulders generally provoked in April the long expected, and often announced, refusal of the Commonwealth Bank to finance further short-term borrowing, as a result of which the Premiers' Conference met last June and the first all-round attempt was made to secure balanced budgets. Mr. Lang's part in shaping the Conference plan was surely and contemptuous. The enemies who had so unreasonably thwarted his own plan were now, he claimed, slowly accepting it. He heatedly denied the contention in sub-committee of the experts, whose report formed the basis of the negotiations, that on New South Wales lay a special duty of retrenchment, in that she had maintained an exceptionally lavish standard of government. By furnishing on the last day of the experts' deliberations the barest outline of the contents of his not yet presented budget he had effectively cramped their analytical zeal. The Commonwealth and the less wealthy States

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announced that they would faithfully cut down wages and salary rates by a fifth. By sheer effrontery Mr. Lang made use of the free hand left to each Treasurer in making this reduction to turn the whole policy of economy into a *reductio ad absurdum*. He proclaimed that he would spare the purchasing power of the people and look to the higher incomes for almost all the additional savings that he was going to make. The salaries of government servants, he announced, would be reduced and £500 a year would be the maximum.

This threat, however, was not immediately acted upon. On June 26 the Premier rushed through the Legislative Assembly an emergency taxation measure which, he professed, would raise £16,000,000 during the financial year 1931-32. Its schedules proposed fresh taxes on wages and salaries rising from 1s. in the pound on weekly incomes of more than four and less than five pounds, up to 5s. in the pound on weekly incomes of ten pounds and over. Similar levies were to be made on "company incomes" and personal incomes other than those derived from employment. "By taking from those in receipt of regular incomes who have a surplus, and employing the money in reducing our huge army of unemployed," said the Premier, "we shall achieve a position of true equality of hardship, but out of it we will emerge a solvent State whose feet are planted firmly on the road back to prosperity." "On the way to Sovietism, you mean!" interjected an Opposition member. "And a good deal better then than now!" retorted a Minister of the Crown.

To the general relief, the Legislative Council rejected without hesitation this spendthrift Bill. This again brought the Premier into direct conflict with the Governor.* When the defeat of the Bill was imminent, Sir Philip Game had attempted to avert a demand for the "swamping" of the Council by suggesting a round table conference of all

* See THE ROUND TABLE, No. 82, March 1931, pp. 440-1; No. 83, June 1931, p. 666.

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parties upon the lines proposed by His Majesty in the Irish crisis of 1914. The Government spurned this proposal, and the Premier requested Sir Philip Game to nominate a large number of new Councillors. The Governor refused. Mr. Lang's view is that it is a Governor's duty to accept his Ministers' advice in all matters, and that Sir Philip Game's conduct amounted to a denial of self-government to New South Wales. Accordingly the Premier referred the question at issue to the Dominions Office. The Secretary of State again refused to interfere, discreetly hinting that the matter seemed eminently one to be settled by the people of New South Wales. The Governor's view is that Mr. Lang has no mandate from the people of the State to pursue his present policy and does not, in fact, command popular support, and that his own duty as Governor is to ensure, so far as in him lies, that the forms of representative government are not used to flout the people's will. At one stage, indeed, the Governor even considered the possibility of exercising his legal power to dismiss Mr. Lang and dissolve Parliament, but he decided that such a step would be bound to provoke a popular outcry, and that it would be best to throw on to the Premier the onus of appealing to the people if he so desired. Mr. Lang has, no doubt for the best of reasons, shown no desire to go to the country. It is too early yet to estimate the full significance of the Governor's attitude in the present crisis, and it is always arguable that in the long run it is better to allow the whole weight of responsibility to fall on an electorate for the results of its own choice. But there can be no doubt that, for the moment, the Governor has vindicated his position under the constitution, and that his firmness has saved the State from total chaos.

Thwarted by both Legislative Council and Governor, Mr. Lang was nearly at the end of his tether. There would be barely enough for workers' wages, and nothing for the "blackcoats'" salaries when the civil service came to be paid on August 6. This was a bleak outlook for

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Premier who had promised over and over again a restitution to the service of even the $8\frac{1}{2}$ per cent. that his cheese-paring predecessors had taken from it. As August 6 drew near, he hurled another parliamentary thunderbolt, the promised measure under which the salaries of Ministers, judges, members of Parliament and all public servants were not to exceed a maximum of £500 a year, and reducing all salaries between £260 and £580 a year by 20 per cent.

The critics of the measure had little difficulty in convincing the Legislative Council that Mr. Lang would do better to effect his savings on similar lines to those on which the Commonwealth and the other States had carried out their economies. Whereupon the Council amended the Bill, and Mr. Lang, in his hurry to obtain Commonwealth Treasury Bills from the Loan Council wherewith to pay his civil service, introduced a new Bill on the lines suggested by the Legislative Council. And so to Melbourne where, the Loan Council having relented, he got his Treasury Bills, and the Commonwealth Bank duly discounted them. Then, five anxious days late, the government servants received their pay.

He is a great optimist, however, who thinks that Mr. Lang has been brought to heel by the Loan Council, or that his budget for 1931-32, hurriedly presented on the eve of yet another session of the Loan Council, conforms to the spirit of the June Conference plan. It shows an estimated deficit of £8,300,000. This, Mr. Lang explained, would be reduced to £5,410,000 by "economies not yet worked out in detail." His published estimates bristle with items which cast doubt upon this pious hope. Incredible estimates of increased revenue, deliberate payments of wages and salaries in excess of those prevailing elsewhere, a determined refusal to reduce the pay of railwaymen and tramwaymen to the federal basic wage, these things hardly looked like a "genuine effort to reduce controllable expenditure."

So on he fares. If Mr. Lang and his very active associ-

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ates at the Trades Hall are working for a communistic reconstruction, they certainly are doing so with a minimum of disturbance to the outward peace of society. Under the Lang régime, the New South Wales police, an admirable and impressive force, have a completely free hand in dealing with the attempts of professed Communists to aggravate the class-war by street rioting. The offers of a "New Guard" of "parlour militarists" to come to the assistance of the police in the event of disorder seem at the moment unnecessary, if not provocative. But there are subtler ways of altering the face of society than by blacking its eye!

III. MR. THEODORE AND THE "MUNGANA" AFFAIR

MOST Australians are heartily glad to have the Mungana affair, with all its disturbing effects, settled at last. It will be remembered that in July 1930*, Mr. Theodore resigned the office of Commonwealth Treasurer in consequence of the finding of Mr. Justice Campbell, a retired Supreme Court judge from New South Wales, and appointed a Royal Commissioner by the Queensland Government, that, along with others, Mr. Theodore, then Premier of Queensland, had been guilty of dishonesty in connection with the purchase by the Queensland Government of certain mining enterprises at Mungana. Mr. Theodore, who had not given evidence before the Commission, demanded that the Queensland Government should, by bringing proceedings against him, give him an opportunity of "confronting his accusers." After removing some legal difficulties, the Queensland Government brought a civil action against the four persons concerned (one of them another ex-Premier of Queensland, Mr. McCormack) claiming damages in respect of a conspiracy to procure by unlawful means the purchase of the Mungana mines by the Government at a price of £40,000, when they were worth only £10,000 at best, or, in the

* See THE ROUND TABLE, No. 81, December 1930, pp. 185-7.

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 alternative, in respect of a fraudulent sale by the defendants to the Crown. The case was heard before the Chief Justice, Sir James Blair, and a jury of four, and resulted in a unanimous verdict for all the defendants on both counts, the jury answering a series of twenty-five questions unequivocally in their favour.

The result is a happy one, so far as the purity of Australian political life and the public reputation of the country are concerned. The only regret that can be felt is that Mr. Theodore did not in the end "confront his accusers," in the popular sense, by going into the witness box. The verdict that the sworn advisers of the Crown were not guilty of any dishonesty or corruption is so satisfactory that it is perhaps a pity that it was not based on the fullest and most searching examination of all the evidence which could possibly have been obtained. The whole incident will probably have a beneficial effect on Australian parliamentary life as a whole. In a country where the population is small, where political feeling runs very high, and where government activities are so far-reaching, members of Parliament will have to consider more carefully with what industries they can with propriety allow themselves to be associated. It is natural, but regrettable, that Mr. Theodore and the Labour party should treat the jury's verdict as the triumphant exposure of what he himself has denounced all along as a campaign of political calumny and persecution on the part of the Nationalists. This aspect of the case will doubtless embitter the State elections in Queensland next year. But the defendants in the Mungana action undoubtedly had a case to answer, and the rumours of irregularities in connection with the purchase of the mines had been so persistent and damaging that it was the clear duty of the Queensland Government to have them fully investigated.

Australia.
 October 1931.

SOUTH AFRICA

I. SOUTH AFRICA AND THE GOLD STANDARD

VERY shortly after it became known that Great Britain had abandoned the gold standard, it was announced on behalf of the South African Government that this country would not follow her example, but would remain on it. This intention has been reaffirmed on several occasions by members of the Cabinet in the strongest terms. The underlying motive inducing the Government to take this decision was probably partly political, for the present crisis provides a magnificent opportunity for demonstrating that South Africa is no mere economic satellite of Great Britain, but a fully fledged planet in the world system. In this case, however, economics and politics appear to be for once allied, and the general consensus of economic opinion in this country appears strongly to support the Government's action. Thanks to its gold mines, this country, as a whole, is less seriously affected by the depression than perhaps any other in the world; for although those sections of the community which depend upon export markets are suffering severely, the gold mines provide the majority of the population, directly and indirectly, with an assured market for their goods and services, and consequently with incomes which have hitherto shown comparatively little decline. White unemployment is estimated at no more than 20,000 to 30,000 out of a white population of some 1,800,000, and while deficits will be shown this year on the budgets of the central Government,

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the four provincial councils, and the State railways, the present burden of taxation, at any rate upon the moderately well-to-do, is comparatively light, and this section of the population could if necessary bear a considerable increase in direct taxation without serious hardship.

From the point of view of the balance of trade the position is also strong. The heavy declines in the values of farm produce, diamonds, and base minerals exported has been more than offset by reductions in imports (caused naturally and without recourse to panic measures such as import prohibitions), with the result that for the twelve months ending August, 1931, the surplus of visible exports over visible imports was £18,800,000 (South African), compared with an average during recent years of about £16,000,000 (S.A.).

The Union of South Africa is therefore under no direct compulsion to abandon the terra firma of the gold standard, and to adopt in exchange a standard based upon the economic and financial conditions of another country, and upon the politics and policies of an overseas government of uncertain composition, over whose actions she will have no kind of control. If South Africa were to exchange the gold standard for the English sterling standard, any tendency towards inflation in Great Britain would compel her to choose between either following blindly the policy of that country, or returning to gold, or maintaining a paper standard of her own, based neither upon sterling nor upon gold, but hovering in the void somewhere in between.

Another point which is frequently made is that, since not merely the prosperity but the very existence of South Africa depends upon the continued use of gold as a basis for currency by the great nations of the world, any step by South Africa which might, in however small degree, encourage the abandonment of this use of gold would be a step in the direction of national suicide.

Finally, the Government stands to reap a very substantial financial benefit from remaining on the gold standard.

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The interest charges on that part of the national debt which is held in Great Britain will be considerably reduced, the saving to the Government at the present rate of exchange being estimated at about £1,500,000 (S.A.) per annum. This saving will incidentally reduce still further the net surplus of invisible imports, already reduced appreciably by decreased payments for freight on imports and decreased dividends on diamond shares, to probably not much more than £20,000,000 (S.A.) per annum, compared with an estimated total of about £23,000,000 (S.A.) in 1929. The net "adverse" trade balance to be filled by foreign borrowings of new capital for the coming year should be less than £2,000,000 (S.A.), as compared with average foreign borrowings of about £7,000,000 (S.A.) during recent years.

While, however, the Government's decision is supported by the bulk of informed opinion, it cannot be denied that the break with sterling has caused several serious difficulties, some of which have yet to be overcome. This country has hitherto had no real foreign exchange dealings, rates having been determined by the simple method of adopting the latest rate quoted from London, modified as necessary by the current South African-London rate. The latter has for the past six years been almost absolutely fixed, with the English pound at a slight premium over the South African pound, due to the need for recouping the Reserve Bank for its expenses in shipping the output of the gold mines to London either in the form of bullion or of specie. Prior to the return to gold in 1925, when both Great Britain and South Africa were off the gold standard, the rates on London were fixed from time to time by agreement between the banks according to the supply and demand for exchange as shown by the alterations in their London balances. Now for the first time it has become impossible for the banks to determine the exchange rates on London with reference either to the cost of shipping gold or to the state of their London balances. South Africa has become

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an independent gold standard country among her peers, and is painfully learning to adapt herself to the responsibilities of her new status. In the absence of any existing financial machinery to deal with this unprecedented situation, there was at first almost complete confusion, which lasted until about the end of September, when, for the first time since the break, the South African-London rates were brought into approximate accord with the New York-London rates. As soon as this occurred it became possible for arrangements to be made to open up direct exchanges with other gold standard countries. The banks can now quote direct rates with New York, with the South African pound only very slightly below gold parity. Direct exchanges with Paris, Amsterdam, Rome, and other gold standard centres are now being arranged, and quotations on these centres will be possible shortly. These rates will, of course, remain practically stable, and will facilitate trade with these countries, while the frequent fluctuations of the rate on London naturally impose considerable difficulties on our much larger trade with Great Britain, especially as this country has as yet no forward exchange market.

On the whole, it is probable that the worst of the confusion is now over. But another and even more serious difficulty has arisen. It would appear that many South Africans believe that sooner or later the English pound will return to parity, or at least be stabilised at a figure considerably higher than that ruling at present, while there appears to be a growing expectation that South Africa herself will be forced off the gold standard in the near future. As soon, therefore, as English sterling was quoted by the banks at a substantial discount, a very large demand arose for transfers to London from people who desired to take advantage of the exchange rates to pay off debts, to provide for future payments, to obtain bargains on the London Stock Exchange, or even merely to obtain balances in London as a pure speculation. On the other

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hand, persons owning funds in England are tending to refrain from bringing them out in the hope that an improvement in the exchange will save them at least part of their loss. The banks have therefore found themselves selling large quantities of English sterling and buying very little. At this time of year the London balances of the commercial banks are about at their lowest ebb ; these banks have therefore been saved any serious loss in the depreciation of the value of their London balances, but are, on the other hand, unable to meet any heavy drain of exchange. They have therefore been compelled to obtain supplies of foreign exchange from the Reserve Bank, which, on September 18, owned bills in London to the value of £6,427,000 (English). By October 9 the Reserve Bank's holding of bills in London, which forms the main foreign exchange reserve of the country, had been reduced to £765,000, though, on the other hand, gold to the value of £2,306,000 had been accumulated overseas, in addition to a normal amount of £5,730,000 held in the Union. The Bank's total reserve in London had therefore been reduced by £3,356,000, or more than half. If the demand for foreign exchange remains insatiable, this reserve may be entirely exhausted, and unless credits can be arranged overseas the Reserve Bank may be compelled to refuse to sell more exchange. Gold would then be withdrawn, and as the Reserve Bank's holding within the Union already shows little margin over its legal requirements, the Government would be compelled either to suspend the Act or to authorise the Bank to refuse gold. The suspension of the Act would permit of the export of a further £5,500,000 (S.A.) of gold, but it is not likely that the Government would allow the legal reserve to be entirely drained before abandoning the gold standard.

The banks have been endeavouring to check the demand for exchange by attempting to restrict sales to "normal trade and personal requirements," but this policy has met with only partial success, and on October 10 a statement

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was issued by the Minister for Finance informing the public that this policy of restriction had his full support, and that all the resources of the State would be employed, if necessary, to keep the country on a gold basis.* While, however, restriction may check the drain to some extent, it cannot prevent it altogether so long as the public can withdraw gold from the Reserve Bank in Pretoria and ship it; while restrictions on the withdrawal and export of gold will, of course, be tantamount to admitting that the country is off the gold standard. It is still doubtful if the country will be able to avoid this step.

Even if the reserves of foreign exchange are able to stand the strain of the abnormal demand, the effect of the depletion of the resources of the commercial banks will probably be to compel these banks to restrict advances, bringing about a renewal of the financial stringency of two years ago, and ultimately a reconstitution of the depleted foreign balances by means of a further reduction in imports. If, of course, the present speculative demand for English sterling should be succeeded by a corresponding movement in the opposite direction, the reason for such a curtailment of imports would disappear.

Should this immediate exchange difficulty be overcome, there will remain the difficulty of import and export prices. Prices of raw materials in England have already risen almost sufficiently to offset the fall in the exchange value of the English pound. But the gold prices received by South African exporters of such commodities as eggs, fruit and dairy produce are likely to remain lower for some considerable time, while local manufacturers are already

* On October 29—since this article left South Africa—the Union Government announced a 10 per cent. export bounty, and a primeage duty of 5 per cent. on imports, and latterly (see *The Times*, November 11, p. 19) has been making enquiries in various countries with a view to raising a loan of £10 millions for the support of the South African pound. On November 12 the South African Bank rate was raised from 5 to 6 per cent., and the next day the Transvaal Chamber of Mines (with one dissentient) passed a resolution in favour of leaving the gold standard and linking the currency to sterling.

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preparing to complain of increased competition from English imports. Pressure is therefore being brought to bear on the Government from two sides, and while at present it seems determined to resist this pressure, it is impossible to say whether this resistance will be continued indefinitely.

Finally, if the English pound remains depreciated, but not restored to gold at a lower parity, the problem will sooner or later arise of obtaining foreign loans. Such loans could not well be raised in London, for, if the English pound should subsequently return to par, the South African borrower of English sterling would find himself owing £100 (S.A.) for every, say, £80 (S.A.) borrowed, while an English lender of South African currency would find himself owed only, say, £80 (English) for every £100 (English) lent. Whether this country could obtain its requirements of new capital in New York, Paris, or Amsterdam remains to be seen.

Postscript

Since this article was written the news has been received that Southern and Northern Rhodesia have left the gold standard. This development will add greatly to the Union's difficulties, for Rhodesia is the chief, and indeed almost the only, export market for Union manufactures, while, thanks to the Customs Union, the commercial relations between the two countries have been most intimate for many years. Southern Rhodesia uses Union silver coin, while Imperial silver circulates freely in both countries. Bank notes issued in Southern Rhodesia have hitherto been freely current in South-West Africa. The sudden disruption of these intimate ties cannot but cause much confusion and probably serious losses.

The Provincial Question

II. THE PROVINCIAL QUESTION

IN the last number of *THE ROUND TABLE** reference was made to the re-emergence of the provincial issue. It will be remembered that the financial difficulties of the provinces have made it necessary that the problem should be dealt with in some at least of its aspects, and that the Government extended to the Opposition (South African party) an invitation to an all-party conference for the formulation of an agreed policy, an invitation which General Smuts was unwilling to accept, if abolition was to figure on the agenda. It will also be remembered that in the past the Nationalist party has been the champion of provincial rights, that the South African party in Natal is almost solid in its eagerness to maintain its distinctiveness in the South African partnership, and therefore desires an extension rather than a restriction of the powers of the provincial councils, and that the supporters of the abolition movement have in the past come from the predominantly South African party urban centres in the other three provinces.

It has been clear for some time that those Ministers who have been brought most into contact with questions of Union-provincial relations have been veering towards abolition. The weaknesses of the system have come home to them in a manner which was not possible when they were in opposition. Administrative overlapping and confusion as between Union and provincial functions, the irritation caused by double taxation, the deadlocks resulting from a constitutional position in which executives are elected under proportional representation and not responsible to the councils that elect them—these things have created and strengthened in their minds a conviction of the inevitability of radical changes. They have come to regard the provincial

* No. 84, September 1931, pp. 909-911.

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system as a concession to weakness, an excrescence on the rounded smoothness of the constitution which must be pared away.

But having come to this conclusion, Ministers were faced with a threefold difficulty. First there is the attitude of Natal—historically never quite in the main current of South African life—conscious of being the distinctively British province, suspicious of many of the manifestations of nationalism, possessed of all the determination of a self-conscious minority to resist anything that might lead to its being swamped and overwhelmed. Now that is an attitude of which political wisdom must needs take account. Natal was a party to the compact of twenty-one years ago which is embodied in the Act of Union. It was, indeed, the only one of the contracting parties that insisted on the holding of a referendum before it accepted that compact. That compact is, of course, not buttressed in South Africa, as is the case with similar compacts in other lands, with the ramparts of a rigid constitution. The Act of Union possesses a high degree of flexibility, imposing but few restrictions on Parliament's freedom in the matter of constitutional change. In other words, the compact was one, not of strict law, but of good faith. But even so the constitution does mark the fact that the provincial system was regarded as one of the important parts of the compact—for it is one of those features a proposed change in which must be reserved for the King's assent. Now that of course, in 1910, meant that the Government in Great Britain, which would then have had to advise the King on such a matter, had the last word, that it could in effect be appealed to on the ground that the proposal was a violation of the compact and of good faith. To-day that is no longer so—the Government of Great Britain cannot advise the King in a matter affecting South Africa alone—reservation survives as a mere form. It is for South Africa herself to decide whether or not the compact of good faith has been broken. Her privileges have grown since 1910. But that very fact

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connotes the growth also of her responsibility. The overriding by Parliament of the strongly expressed sentiments of one of the provinces—one of the partners to the compact—in an issue such as the provincial issue, is fraught with more, not with less, difficulty than it was twenty years ago.

Second among the difficulties in dealing with the provincial problem is the question of what is to come in the place of the councils if and when they are abolished. For, let it not be forgotten, the councils were "contrived a double debt to pay." They were a concession to the minority sentiment which favoured federalism twenty-one years ago—but they were also conceived as organs of local government. For in the whole of South Africa outside the Cape Province there were in 1910—and are still—no organs of local government except in the towns. Municipal government is in a relatively advanced stage in South Africa, but in the Transvaal, the Free State, and Natal there are no local government bodies in the purely rural areas—the hostility of the agricultural community to anything in the nature of local taxation, especially to a rate or a tax on land, has hitherto proved an insuperable obstacle. And since the central government of a country as large as South Africa could not deal with all the petty local affairs of the whole of its rural areas, the provincial councils and administrations were created to relieve it of that burden. As for their financial resources, these, apart from subsidies voted by Parliament, have come from taxation which has been borne chiefly by the towns. It is still only in the Cape Province that there is anything in the nature of a property tax outside the urban areas. Here, then, one of the difficulties in the way of abolition presents itself. After abolition—what next? A new and more extensive system of local government, or the concentration of the present provincial functions in the hands of the central government? The latter would mean a deplorable strengthening of the tendency towards bureaucratisation at which already South

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Africa has good reason to be alarmed ; the former, as soon as its implications are realised, is bound to evoke much opposition in the rural areas.

And that brings us to the third of the Government's difficulties—the party considerations involved. The Nationalist party is predominantly a country party, and as such its supporters have not been unduly conscious in the past of the burdens of the provincial system. As a party it defended that system in the days when the Smuts Government showed a tendency to impair provincial rights. How then was the Government to secure its support for a policy of abolition, especially when the inevitable realisation came that such a policy was likely to mean the imposition of new taxation burdens on a farming community already hard put to it ?

In the light of the above analysis of the difficulties, it will be obvious why the Government sought to remove the issue from the party arena. But having failed in that effort as a result of General Smuts's refusal of its invitation, it did not let the matter rest. It announced at the end of the session that the question would be dealt with during the recess. A month or two after Parliament rose it was bruited abroad that a policy had been decided upon. Ministers made cryptic references to their intentions ; the usual crop of rumours circulated ; gradually the stage was set for a declaration of policy, to be made by the Prime Minister himself at the annual Congress of the Transvaal section of the Nationalist party.

That declaration has to some extent cleared the air. It was, however, marked by hesitancy and a lack of precision. General Hertzog commenced by announcing that the Government had come to the conclusion "that the national interests demand that such changes be introduced as will centralise all necessary financial control under the Union Government." This, he went on to say, would entail the disappearance of the present provincial system, but he indicated "that provision should be made for an adequate

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system of devolution of administrative functions in regard to certain local matters." As for Natal, the Government was prepared to take account of its strong local sentiment, and to give it the option of retaining the provincial system. The Prime Minister, however, gave no information about the financial conditions on which Natal might retain its provincial council—obviously a point of great importance—or about the nature of the proposed system of devolution of administration. He did, however, state that the Government did not intend to introduce legislation in the life of the present Parliament. The matter would be left for the country to consider, and no constitutional change would be made until after the next election.

Since the Prime Minister's speech the matter has been dealt with in rather more detail by the Minister of the Interior (Dr. D. F. Malan), with whom the legislative responsibility for such matters lies. Dr. Malan's speech marks an advance in two respects. In the first place, he announced the Government's intention to appoint a commission of inquiry to frame a detailed scheme for an alternative system of local government; in the second place, he quite definitely rejected the possibility of the complete centralisation of provincial functions. "The Government," he said, "will not countenance the further centralisation of administrative functions." And he went on to declare that "local bodies, locally elected, and with a large measure of local responsibility, are the bulwark of a nation's independent character." Moreover, he recorded what he described as personal convictions, which implied *inter alia* the extension of the Cape system of rural self-government to the other three provinces, together with the imposition of local financial burdens on the rural communities in those provinces which do not carry them to-day. Thus far have the Government pronouncements hitherto made taken us. It is clear that they have revealed, rather than solved, the difficulties. The suggested option to Natal, though it has drawn the fangs of the opposition

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from that quarter, seems a dubious expedient. It would have the effect of perpetuating Natal's distinctiveness, of separating it more than ever from the main stream of the Union's life, of recognising it almost as a South African Ulster. There is much, it would seem, to be said for postponing a final settlement of the provincial problem until Natal is ready to be treated just like the rest of the Union. Moreover, while Natal's opposition has been bought off, the Government's own supporters have been even more difficult to deal with than was anticipated. Both the Transvaal and the Cape Nationalist Congresses refused to pass resolutions approving of the abolition policy, and adopted dilatory motions instead. The almost exclusively Nationalist Free State provincial council has taken up a severely critical attitude. The Nationalist party is very far from being united to-day in support of the new policy. And with the realisation of the significance of Dr. Malan's remarks as to the system of local government which should replace the councils, opposition seems likely to harden. Of the general soundness of his views there can be no doubt. The absence of local government bodies in the rural areas with a reasonable measure of financial responsibility is to-day the chief weakness in the Union's administrative fabric. But with primary products at present prices the time hardly seems opportune for a move in that direction—and it may even be that the precipitation of the issue at the present juncture will retard rather than accelerate what is otherwise a very necessary development in South Africa.

It is as well, therefore, that the Government is prepared to hasten slowly. A commission of inquiry is to be appointed, and legislation is not to be introduced until after the next election, which in the ordinary course will not take place before the middle of 1934. Many things may happen between now and then.

The Problem of the Low Grade Mine

III. THE PROBLEM OF THE LOW GRADE MINE

AS the question of the gold supply of the world is at present one of importance, it may be useful to look at an aspect of the production of gold which is at present attracting public attention in the Union—that is, the problem of the low grade mine. Expressed in other words, the question is whether, and if so how, the present costs of production can be so far reduced as to enable large areas of gold bearing rock, the gold content of which is not sufficient to admit of mining on the existing basis of costs, to be brought within the limit of payability.

A Government commission is at present sitting to consider this question. It is not the first time that such a commission has sat, and, unless the report of the present commission leads to more practical results than has been the case in the past, it is not likely to be the last. The object of this article is not to attempt to anticipate any conclusions to which the commission may be led, but to call attention to certain facts bearing on the present costs of production as disclosed in the very full and carefully prepared statements laid before the commission by the Transvaal Chamber of Mines.

Public opinion in the Union has been slowly but surely undergoing a change of outlook in regard to the gold mining industry of the Transvaal and its place in the national economy. The traditional attitude of governments and the public towards the gold mines, outside the circles of these more intimately associated with the industry itself, has been to regard these deposits as a sort of windfall, a buried treasure of uncertain dimensions, which was being exploited and appropriated largely by foreign capitalists, and of which accordingly it was the business of the State and the public generally to get as large a share as

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possible while it lasted. As the years went on, however, the forecasts of an early exhaustion of the gold bearing deposits have one by one been falsified. The output has gradually risen to its present figure of over £45 millions (calculated on the present gold content of the sovereign), and round it and depending on it the State expenditure, and the commercial and industrial system of the country, has grown to its present dimensions. The question which is now being forced upon public attention, therefore, is not to what extent the industry can be held to ransom, so to speak, by the tax collector or the private individual, but rather what can be done to preserve the industry as a vital part of our national economy for the longest possible time with the maximum output of gold.

It is recognised, at any rate in theory, that the life of the industry is in the nature of things limited. From time to time estimates have been made of the probable rate of decline of the output of the mines, but the period which they have set to the maximum activity and the life of the industry has so often been exceeded by the actual facts of production, that the public in general ceased to attach any importance to them. Lately, however, the fact that certain of the older mines have actually closed down, and that others, including some of the largest, have been unable for some time to show a profit on working, has given rise to a certain amount of anxiety on this point. The latest official estimate predicts that in 1940 the value of our gold production will have fallen from its present figure of £45 millions to £25½ millions and by 1949 to £10 millions. A decline in the gold output on this scale would involve a diminution in the consuming capacity of the country which no one likes at present to contemplate, and for which no one at the moment can see any compensating factor. The salaries and wages bill of the Witwatersrand gold mines for 1930 amounted to £15 millions, while their purchases of stores and so on totalled over £14½ millions, of which over £9½ millions were of South African produce or manu-

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factures. For the business and industry of a small community such as ours the importance of these figures is obvious.

It is well known that there are very extensive areas of mineralised rock on the Witwatersrand which are not capable of yielding a profit on the basis of present costs, and much of which, if they cannot be worked in the near future, will, in all probability, never be worked at all, if existing mines through which they could be worked are abandoned, and the shafts and underground workings fall into disrepair. The estimate of future production, which has been already cited, was made by the Government Mining Engineer early in last year, and in connection with it he stated that it had been estimated that, if costs could be reduced by 2s. per ton of ore milled, there would be no appreciable diminution of output for the next eight or ten years. If we take that in conjunction with his own estimate of a probable reduction on existing conditions between 1930 and 1940 of £18 millions, the importance and urgency of the question will be appreciated.

The main directions in which the Chamber of Mines look in the evidence placed by them before the commission for a reduction in costs are the following :—

1. A reduction in the wages of European workers based on the reduced cost of living since they were last fixed.
2. A revision of the Mining Regulations which would permit certain classes of work on which the mines are now compelled to employ highly paid European labour to be done, with (as they contend) equal efficiency and safety, by lower paid classes of labour.
3. Reduction of certain forms of taxation and of railway rates which, they maintain, are at present unfairly differentiated against the mining industry.
4. A reduction of the burden which the industry is at present carrying in the matter of compensation to the sufferers from miners' phthisis.

On the question of wages the Chamber has suggested a

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reduction of 5 per cent. The workers concerned have so far shown no sign of accepting such a reduction, and it is very doubtful if the companies would be in a position to enforce it, or would be supported by public opinion in any attempt to do so.

The complaint against the regulations is that they necessitate the employment of numbers of European workers underground who are unnecessary for the purposes of safety and health. What is aimed at is, no doubt, a relaxation of what is known as the "colour bar" regulations, which compel the employment of Europeans in certain classes of work where, if economical and efficient working were the only considerations, labour of a less highly paid type would be used. Here again it is more than doubtful if a demand for revised regulations would be supported by public opinion. It was the fear that the mines intended to replace European by coloured labour on a large scale that caused the disastrous upheaval in 1922. The present time, with unemployment existing on a serious scale, would not appear to be propitious for another test of public opinion on this question.

Differential taxation on the gold mining industry is in force in the case of income tax, which for mining companies is at the rate of 3s. in the pound as against a rate of 2s. 6d. for other companies. This is, of course, not an element in determining production costs, but it is complained of as a deterrent from the investment of capital in mining enterprises. Other imports which do affect costs of production are claim licences and native pass fees. The former constitute a form of taxation which has some justification in the case of claim-holders who are not actively working the ground held by them, but is quite an uneconomic form of taxing producing mines, as it is a mere addition to the costs of production bearing no relation to the results derived. The native pass fees are simply a *per capita* tax on the employment of native labour and have no justification except the amount of revenue that they

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produce. These two imposts together are estimated to involve a burden of about half a million pounds.

The complaint of the industry in regard to railway rates is briefly that the railway administration exacts inordinately high rates on the carriage of coal to the mines, and on explosives and other supplies required by them, in order to recoup itself for unpayable rates on the conveyance of other classes of goods—mainly agricultural produce. The complaint is one of long standing and is undoubtedly well founded. It is estimated that a revision of the railway rates on business principles, apart from political and other considerations, would lead to a reduction of £500,000 per annum in the rates charged on the stores used by the Witwatersrand gold mines.

The most serious individual burden on the industry is that involved in the compensation paid to miners suffering from miners' phthisis, and to the widows and dependents of miners who have died from that disease. This is borne wholly by the industry, and involves at present an annual levy of £800,000 which will probably in the near future have to be raised to £1,000,000. There is, in addition, an outstanding liability in respect of pensions to miners and dependents, the present value of which is calculated at about £8 $\frac{3}{4}$ millions. This has to be provided for by the companies so that funds may be available for meeting these liabilities after the mines in question have ceased to operate. The whole of this burden is laid on the industry in accordance with the ordinary principle of workmen's compensation legislation that an industry should be made responsible for compensation for the death or disablement of its workers. But the fact that compensation in this case takes the form largely of pensions to sufferers and to their widows and dependents, and that this form of compensation was made retrospective, means that the existing mines are bearing the financial burden of the effects of disease incurred by mines that have long since ceased to exist. The incidence of the disease has undoubtedly been reduced by the elaborate

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precautions now enforced to secure healthy working conditions underground, and by the strict medical examination now required as a condition of obtaining employment underground. But, taking this improvement at its best, it will be many years before a material reduction of the total cost can be looked for. In these circumstances it cannot be wondered at that a strong claim is put up by the industry that the State should assume a substantial share of the burden.

There is no space in this review to deal with the question of the supply of native labour. At present, owing to adverse conditions in the native reserves, this is not a serious question. But from time to time a shortage in the native labour complement causes serious anxiety to the mining companies, and they are insistently demanding permission to extend their recruiting field to territories north of latitude 22 degrees South, from which they are at present debarred by law.

The capacity of the industry to carry the various burdens imposed upon it by the policy of past and present governments has been obscured in the minds of the public by the phenomenal richness of some of the mines worked in the early days, by the large fortunes amassed by some of the leaders of the industry, and by a general illusion of wealth which the production of gold on a large scale appears to create. To-day, fortunately, a saner view is possible, both of the importance of the industry as a part of the national economy, and of the effect of heaping unreasonable exactions upon it. The idea that these exactions only affected the pockets of a few mine magnates and oversea shareholders has largely given place to a more accurate appreciation of the advantage, indeed the necessity, of prolonging the life of the industry. It has been said with truth that the whole industry is a low grade proposition. The average gold content of the ore at present worked is not more than about $6\frac{1}{2}$ pennyweight per ton. Only the most scientific organisation, and the employment of the

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native for unskilled work, enable such ore to be worked at all. To relieve the industry of some of the unreasonable burdens which have been thrown upon it in the past, so as to bring within its scope extensive areas of at present unpayable rock, and to postpone to as distant a date as possible the inevitable period of its decline, has become one of the pressing problems of South African statesmanship.

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October 21, 1931.

NEW ZEALAND

I. UNEMPLOYMENT

VALUABLE work was accomplished by Parliament during its emergency session in March and April, but this did not relieve it of the necessity of meeting again at the usual time for the second regular session. Unemployment, finance and the trade depression were the main burden of Lord Bledisloe's short opening speech on June 25, and a week had barely elapsed before the debate on the Address in Reply had to be interrupted to permit of the introduction of an Unemployment Amendment Bill as an urgency measure. When the principal Act was passed in September 1930, the number of registered unemployed was 6,099,* the Unemployment Board which came into existence on November 20, 1930, had been spending money at the rate of about £24,000 a week, and by the end of last July there was an estimated deficit of about £200,000. More liberal provision was, in consequence, needed to meet an increased and steadily increasing demand. The 1930 Act had imposed a tax of 30s. a year upon every male of 20 and upwards, and, in addition, a subsidy from the Consolidated Fund equal to one half of the expenditure was to be paid into the Unemployment Fund. Under the new arrangement this flat rate will be reduced to 20s., but there will be a charge on salaries, wages and other income, of 3d. in the £, to operate as an emergency tax for one year only, and, though women will continue to be immune from permanent taxation under the principal Act, they

* For full particulars of the Act see THE ROUND TABLE, No. 81, December 1930, p. 219.

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will not, except in certain cases, be exempt under the amending Act. It is estimated that the revenue accruing to the Board from these sources for the year ending next July will, taking into account the £ for £ subsidy, amount to £2,185,000, which is nearly double the income (£1,200,000) previously provided. The increase shows the urgent nature of the problem involved. Nor was there any serious opposition to the new measure. The *Evening Post*, on July 3, took the same line as *The Times* had taken in its comments on the proposals made by the General Council of the Trades Union Congress to the Unemployment Insurance Commission on May 4.

Contributors are (it said) to be brought in irrespective of their risk of unemployment and, broadly speaking, made to contribute in inverse proportion to that risk. There is to be no relation whatever between the contribution and the benefit of the individual.

Yet, even the *Evening Post* did not withhold its support. It recognised that something had to be done, and done at once, and that the Bill was "the only Bill that could have been introduced" in the circumstances. It was, it admitted, necessary, in spite of its defects on the score of equity, to prevent the gravest hardship.

It must, however, be recognised that our unemployment scheme is not really an insurance scheme at all, and although considerable liberties were taken by the legislature with the excellent report of the Unemployment Committee,* this distinction was not lost sight of. On his return from the Imperial Conference the Prime Minister declared himself more strongly opposed than ever to the "dole," and the Commissioner, in his memorandum on the work of the Unemployment Board, emphasised "certain fundamental principles," in the following passage :

The Unemployment Fund (he reminded us) is made up by taxation levied over the whole of the community with certain few

* See *THE ROUND TABLE*, No. 79, June 1930, pp. 667-8 and No. 81, December 1930, pp. 219-21.

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exemptions. It is not an insurance fund in the sense that there is a written contract specifying a premium and benefit. Beyond the fact that the funds must be used for the purpose specified, i.e., the provision of employment in various ways, no one is as of right entitled to any specific benefit. It is erected for the relief of the unemployed worker—the willing and able to work. It is not for the relief of any other kind of distress, caused by, say, age, infirmity, sickness, etc., nor for the relief of the farmer, the business man, nor for any other class than the unemployed worker seeking employment.

In the House of Representatives Labour members complained that the poor man was still paying too much and the rich man too little. But the rich man, in point of fact, pays heavily, not only through the emergency levy of 3d in the £, but also through his graduated contributions to the Consolidated Fund which, besides supplying the Unemployment Board with half its revenue, pays liberally in other ways for unemployment. Relief works are moreover provided by the Public Works Department on a large scale, and on a smaller one by other departments. The figures of government expenditure under all heads last year are as follows :

	£		£
*Subsidy to Unemployment Board ..	159,247	Department of Lands and Survey ..	21,933
Public Works Department (including main highways)	1,249,446	Subsidies to local authorities ..	116,768
State Forest Service	85,000	Total ..	<u>£1,632,341</u>

The total expenditure for the last five financial years under these heads was as follows, during the calendar years which most nearly correspond to them :

	Expenditure £		No. of registered unemployed
1926-27 ..	144,240	1926 ..	1,196
1927-28 ..	482,221	1927 ..	1,982
1928-29 ..	802,709	1928 ..	2,504
1929-30 ..	1,415,592	1929 ..	3,023
1930-31 ..	1,473,147	1930 ..	5,055

* This particular item was only for the last four months of the year.

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During the current year over £2,000,000 may well be spent, as the Finance Minister estimates an increase in unemployment subsidies alone of £1,110,000. The unemployed at the end of the March and June quarters numbered 38,028 and 45,264 respectively, and the 50,000 mark was passed on August 29. The total on September 14 was 51,234, which would correspond to about 1,500,000 on the British scale.

In view of the continuous rise in the unemployment figures for the last five years, during three of which the Reform party was in power, and of the abrupt acceleration in the rate of increase during the current year, it seems almost incredible—especially as the same thing has been going on simultaneously all over the world—that even the blindest partisan of the Reform party should still put down the cause of the trouble or of any substantial part of it to the change from a Reform to a United administration at the end of 1928.*

II. THE BUDGET

IN introducing his second budget on July 30, Mr. Forbes indulged in a characteristic understatement. He described the current financial year as “probably the most difficult in the history of this Dominion.” If he had said “by far the most difficult,” few of his countrymen would have contradicted him. External trade, upon which the prosperity of the country chiefly depends, had for the first time—especially during the last few months—felt the full force of the world depression, and every source of revenue was badly affected. The changes in external trade during the last four years are shown by the following figures :

* The most serious and least excusable of the United party's disservice was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men, and the 12s. 6d. to married men, but the original rates were restored by Mr. Forbes last April.

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Year ended March 31	Imports		Exports		Total External Trade £
	£	£	£	£	
1928	44,419,000		54,962,000		
1929	45,106,000		57,154,000		99,381,000
1930	49,168,000		49,046,000		102,260,000
1931	38,301,000		39,528,000		98,214,000
					77,829,000

Exports for 1930-31 were, it will be noted, no less than £9,500,000, or 19 per cent. below those of the previous year, and £17,600,000, or 30 per cent. below those of the year 1928-29. The explanation given by the Minister of Finance was very much the same as last year.

The decline in the value of exports was (he said) due principally to a further sharp fall in prices, the "all groups" export prices index showing a decline of over 28 per cent. for the year. The falling-off in value, however, was not the result of a reduction in the actual volume of exports, considerable quantity increases being shown in butter, frozen meat, and gold. Wool was the only important item showing a reduction in quantity, but this was due not to decreased production but to the carry-over of stocks in anticipation of an improvement in prices.

The decline in exports was unprecedented, but the drop in imports—£10,867,000—was even greater, and the year actually closed with a favourable trade balance of £1,227,000. In Mr. Forbes's words,

The equilibrium in external trade has been largely preserved, but the general contraction in the value of this trade has seriously affected the public finances, as well as all internal business, either directly or indirectly.

Customs duties, always the largest item of revenue, naturally accounted for most of the drop. The total revenue for the year 1930-31 amounted to £23,069,000, £2,051,000 below the estimate and £2,281,000 below the figure for the previous year. Of this deficit customs accounted for £924,000, and next to customs came interest on railway capital, a shortage "due to an unprecedented falling-off in passenger and goods traffic." On the other side of

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the account the Government is entitled to credit for the fact that expenditure, £24,708,000, was £289,000 less than the estimate, which itself was £203,000 less than the expenditure for the previous year. But with a revenue of only £23,069,000, the net result was a deficit of £1,639,000. This was, however, a small matter in comparison with what might have been expected in view of the steadily accelerating rate of the decline for the last quarter of the year and the first quarter of 1931-32. In a detailed examination of the principal heads, Mr. Forbes gave reasons for supposing that all the revenue items were likely to shrink and all the expenditure items to rise. The following figures give the result of his calculation :

<i>Prospective Shrinkage of Revenue.</i>	<i>Prospective Increase in Expenditure.</i>
	£
Customs	Unemployment subsidies .. 1,100,000
Land and income tax	Debt services 350,000
Stamp and death duties	Pensions 200,000
Beer duty	Subsidies to local authori- ties, etc. 125,000
Railway interest	Education 00,000
Interest on Public Debt	General Election 75,000
Redemption Fund	Decrease in credits to votes 130,000
Other items (net)	Other items (net) .. 250,000
	2,330,000
	Less adjustment (equiva- lent to under-expenditure for 1930-31) 290,000
	2,040,000
	4,810,000

It was indeed, as the Finance Minister remarked, a "stupendous task," which faced the Government. With a steadily deteriorating market, they had to make provision for a prospective deficit equal to approximately 30 per cent. of the revenue for the preceding year, in other words, a gap of £6,850,000 had to be bridged. Of the measures taken to bridge it, the most effective and the soundest was the 10 per cent. cut in the salaries, allowances and wages of the public service, effected during the emergency

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session. A sum of £1,390,000 was saved in this manner. The postponement of war debt payments under the Hoover plan, which Great Britain has "with characteristic generosity" extended to the Dominions, accounted for £870,000.

Some of the other expedients to which Mr. Forbes was compelled to resort were admittedly of a more dubious character.

The state of the public finances during the current financial year (he said) is probably more serious than at any time during the past fifty years, if not during the whole history of the Dominion. Further, the economic position generally is such that it is imperative that increases in taxation be kept down to an absolute minimum. Under these circumstances the Government considers that this is a time when any reserves that can be legitimately drawn upon should be used.

It is, of course, obvious that the word "legitimately" begs the question, but members, notwithstanding the fact that there is no guarantee that the necessity will not be even greater next year, were not disposed to be hypercritical. And so the process known at Westminster as "robbing the hen roosts," but which sounds better under Mr. Forbes's more dignified title of "utilisation of reserve funds"—"convey the wise it call"—met with no serious challenge. Upwards of a million was obtained in this way—£550,000 from the Reserve Fund in London and £590,000 from the Discharged Soldiers Settlement Depreciation Fund. The full "summary of savings" was as follows:

Reductions in salaries and wages	..	..	..	1,390,000
Benefit from suspension of funded debt payments	..	..	..	870,000
Other economies in expenditure	..	..	..	595,000
Post office surplus and other additional revenue	..	..	..	936,000
Use of reserves	..	..	..	1,140,000
Subsidies to local authorities, etc., to remain a charge on highways account	..	..	..	125,000
				£5,056,000

But even so £1,794,000 was still needed to balance the budget, and to find it it was proposed to raise £730,000 by

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increasing the income tax. There was a 10 per cent. increase in this tax last year, and this was to be increased to 30 per cent. Further, the general exemption of £300 was to be brought down to £260, and in place of the more liberal scale hitherto prevailing, this exemption was to be reduced by £1 for every £3 of incomes between £260 and £560 and by £2 for every £3 of incomes between £560 and £800. The residue of £1,060,000 was to come from customs and excise, and the necessary provision was made by a series of resolutions passed immediately after the introduction of the budget. The most important tariff increases were tea 3d. per lb., sugar ½d. per lb., imported beer 1s. per gallon, cut and plug tobacco 1s. 4d. per lb. In the case of apparel, hosiery, carpets, etc. preferential and general rates were increased by 5 per cent. *ad valorem*, and in that of furs and silk piece goods, 10 per cent. was added to the preferential and general tariff rates. A prime duty of 3 per cent. was imposed on all goods otherwise free of duty, and the excise duties on cut and plug tobacco were increased by 1s. 4d. per lb., and those on beer by 6d. per gallon. The amounts expected from the increased duties (excluding the beer duty) were summarised by the Finance Minister as follows :

Amount to be collected from duties hitherto in force	£	6,500,000
Amount expected from new duties on the under-mentioned articles (including surtax)—		
Tea	92,000	
Sugar	220,000	
Tobacco	180,000	
Silk, imitation silk and artificial silk	42,500	
Apparel and hosiery	86,000	
Chinaware, floor coverings and gramophone records	62,000	
Other items	47,500	
Primage duty	180,000	
		£7,410,000

After making allowances for these increases in taxation

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and the above-mentioned economies and adjustments, the revenue for the year will, it was estimated, be as follows:

	£	Interest receipts—	£
Customs	7,410,000	Railway capital ..	939,000
Beer duty	650,000	Post Office capital ..	535,000
Film-hire tax	50,000	Public moneys ..	745,000
Motor vehicles—Duties and licences	1,760,000	Public debt Redemption Fund ..	820,000
Stamp and death duties	3,140,000	Miscellaneous—	
Land tax	1,100,000	Post Office Surplus ..	1,090,000
Income tax	4,230,000	From Reserves ..	1,140,000
		Other	1,346,000

The estimated grand totals for the year are as follows:

	£	£
Revenue		24,946,000
Expenditure—		
Permanent appropriations	17,679,904	
Annual votes	7,083,877	24,763,781

which leaves a surplus of £182,219 for the purpose of supplementary estimates and other calls.

The proposals of the Government at once excited the uncompromising hostility of the Labour party. The leaders of the Reform party, however, felt that the issues were far too complicated to permit of any off-hand determination of their attitude, and the Reform press was, as a whole, remarkably free from captiousness. Mr. Holland opened the attack on behalf of the Labour party with the declaration that customs are the most unscientific kind of taxation if you want revenue, that taxing articles like tea, sugar, linoleum and gramophone records meant putting the burden on the shoulders least able to bear it, and that the Government, which had promised to do its best to bring down the cost of living, was doing exactly the opposite. "An attack on the breakfast-table of the people" was, said another Labour member, the most remarkable feature of the budget. (The additional amounts to be raised by direct and by indirect taxation respectively are £780,000 and £1,000,000.) Mr. Forbes's reply was

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that the Government considered the method he proposed the fairest way of raising the money. It had, he continued, been said,

that the cost of living would be raised, but it had already fallen considerably since July 1914—and the full effect of the 10 per cent. cut had not yet been felt. The new duties on sugar would make a difference of .048 pence only. . . . The Government had not set out on a protective policy, but to obtain additional revenue.

In so far as the press is concerned the eulogy of the *Christchurch Times*, a United organ, and the unqualified detraction of the *New Zealand Herald*, a Reform paper, may be taken as representing the two extremes, but any lack of generosity in Reform journalism was fully redeemed by the *Christchurch Press*, which, though a thorough partisan of Reform, prefaced a by no means uncritical article with the following personal tribute :

It is due to the Prime Minister that the first thing said about the budget should be that it shows considerable courage. As he defined it, his problem was to cover a prospective shortage of almost £7,000,000 ; and he chose to do it in a single effort. He might have budgeted for a deficit. It is possible now to argue that this would have been the wiser course, and events may prove it with a very bitter logic ; but the Prime Minister's choice has at least these great merits. It will undoubtedly support the Dominion's credit and reputation at home, where both are worth money and a great deal more than money. It shows that the Government, having accepted relief to the extent of £870,000 from British taxpayers, is not going to be indulgent to its own. And third, there is the very strong point that in budgeting determinedly for a balance the Government spares no section ; while budgeting for a deficit would have provoked one section or another, or all sections, to complain of insufficient relief.

The wide-spread admiration which Mr. Forbes's courage and candour evoked also finds expression in an article entitled "a needs-must budget" in an Independent journal, the *Evening Post*.

A budget which adds 20 per cent. to income taxation and over a million sterling to customs and excise duties is a fair target for

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Opposition criticism. But at least this praise must be given to the Prime Minister: he has set himself a goal and has gone forward to it with unflinching determination. On the eve of an election he has resisted all temptation to temporise. He has given his opponents ample ammunition to use against him. In the budget there is not one promise of favours to come; only the prophecy that if the people will face their difficulties with enterprise, thrift, and honest work they will soon reach a road leading to greater happiness and prosperity. This does not seem much to set against an additional £1,800,000 of taxation, and against the economy measures which may yet make greater inroads upon those government services which the people have become accustomed to expect. But can any other party honestly promise more?

III. COALITION AT LAST

THE movement for the amalgamation of the United and Reform parties has already been described in these pages.* Three months ago it seemed to have reached a deadlock. Mr. Forbes, thanks to the loyal help of the Reform party, had, in spite of bitter opposition, just come through the emergency session with a fine legislative record and great personal credit, and he publicly extended to the Reform party and "others who have the interests of the Dominion at heart" an invitation to combine in order to form a national party to govern the country. On May 6 this invitation was peremptorily rejected by Mr. Coates. He proposed, however, that a small committee of his party should confer with Ministers before the introduction of new legislation. Three months later the matter appeared to have been carried no further. There was certainly no sign in the Reform organisation of disagreement with the attitude of their leader. A considerable body of independent opinion, however, which is not usually unsympathetic to the "Reform" cause, expressed its strong disapproval, and weighty memorials were sent Mr. Coates by business men, especially from Auckland and Wellington, urging him to reconsider his

* See THE ROUND TABLE, No. 84, September 1931, p. 928.

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decision. His reply to a memorial from Wellington was published on August 18. The following extracts give its substance :

I find (wrote Mr. Coates) that the Reform party still holds the opinion that coalition, under existing political conditions, with the United party, either for general political objects or the formation of a Government, would not result in real union or promote stable government, and would not be of advantage to the country, which should be and is our first consideration. Parliamentary history provides precedents of similar combinations of political parties, but all have proved to be transitory and without stability or permanence.

... After careful examination of the position, we feel that there is no practicable adjustment of the parties at present in the House which could give the strong government we and you equally desire. This object can be achieved only by the electors themselves at the next election.

Mr. Coates did not explain what would happen if the old irrational three-party fight should continue and the result again be an inconclusive verdict on the part of the electors. Nor did he seem to realise the suspicion which he had brought upon his party by his decision. Nowhere indeed was this put more clearly than in the *Press*, itself one of the staunchest of Reform organs.

It is absolutely imperative at present (wrote the *Press* on July 10, referring to Mr. Coates's vehement repudiation of the suggestion that he had been consulted about the Unemployment Bill) that those who approve the sacrifice should say so, and it would be a calamity if the impression were created that the Reform party is less eager to say so than it ought to be. Mr. Coates will have to be very careful if he is to prevent this impression from deepening. The Reform party is committed to co-operation so far as that can be given without violence to its principles, and while there can be no doubt of its help during what remains of this session, it must not allow anyone to say, or anyone to feel, that its real concern is with what follows the session.

Mr. Coates is in a more difficult position than the leader of any party has occupied within the memory of those still in New Zealand politics. The fusion offer, whether this was simplicity or craft, contained nothing when it was carefully examined but a suggestion that one leader should hold the other's hand while both took a leap in the dark. But very few people examined it carefully, or have

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examined it yet. . . . The danger (at the election) is not that a majority of the people want a Socialist Government. It is that those who do *not* want socialism may not have a clear opportunity of saying so. The danger that particularly threatens the Reform party is the fact that, if it is not very careful, it will find itself in a position in which it appears to be risking the fate of the community in a gamble for victory and power.

There is no reason (the writer went on to say) why Mr. Coates should not propose some common meeting ground, or at least indicate more plainly that he is willing to join in the search for one.

If he had done it sooner one might have supposed that Mr. Coates had this wise advice in view when, on August 21, he sprang a pleasant surprise on the country by moving the following resolution :

That, in the opinion of this House, the serious economic and financial position of this Dominion necessitates urgent and immediate action to cope with the fall in national income, as revealed by the latest figures, and the consequences arising therefrom; that, with this object in view, it be a recommendation to the Government that representatives of the political parties should be called together in order to decide what remedial steps should be taken to adjust the national expenditure and to provide for equality of sacrifice and a proper distribution of the burdens; that in arriving at its conclusions this committee should obtain the best expert advice and assistance from financiers and others; that in order to enable such inquiry to be carried out Parliament should be adjourned for a short period and further consideration be given to the position when the committee reports to the House or the Government.

In ordinary circumstances such a resolution would, of course, have raised a question of no-confidence, but on this occasion it took the very line that the Prime Minister himself had suggested. Mr. Coates, moreover, explained that he had consulted the Prime Minister and the Leader of the Labour party before moving it. The main points in his speech were as follows : *

The Reform party had had (he said) many conferences during the last fortnight before reaching a decision. There were two courses open to the party—one to go to an immediate election and

* See *The Evening Post* of August 21.

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the other to arrive at the decision he had indicated. It was felt that it would occupy two months at least to go to an election, and the Reform party had decided that the time had arrived for all parties in the House to come together in an endeavour to meet the position. Therefore the suggestion that representatives from each party should meet in conference and with assistance of outside experts draw up a plan appeared to be the best course. . . . One of the reasons why the Reform party was so concerned was that it had been receiving S O S signals from farmers and others whose position was desperate. . . . They would be lucky if they were able to maintain the present prices.

He did not mean anything in the nature of pessimism, but just to indicate that the parties in the House might with advantage be called together to consider the whole position. There were those who said that New Zealand was in a better condition than Australia, and that was no doubt so, but there was a danger that the Dominion would drift into the position Australia was in. There had been a tremendous drop in imports, and even with the increased customs tariff it was doubtful whether it would reach the estimate. That factor must increase the difficulty of balancing the budget. The income tax estimates for the year appeared to be optimistic. The railway accounts showed a severe and alarming falling off. Then, members had to consider the strong probability of a difficult situation next year. . . . The Prime Minister had discussed the position with him, and also the Leader of the Labour party, and he was indebted to both Mr. Forbes and Mr. Holland for placing the matter before the House.

Mr. Forbes, on behalf of the Government, welcomed and seconded Mr. Coates's motion.

He could not (he said) but agree with the conclusion which had been arrived at by the Leader of the Opposition. He had felt for a long time that the financial position of the country could not be dealt with by a minority Government. First and foremost there was the question of the farmers' finances, and as the whole country's welfare depended on that industry, they must realise that everything hung on the welfare of the primary producer. That was a problem which loomed up very large. There was no doubt that the farmers' difficulties were multiplying and that they would go on multiplying, and that the House would have to give serious consideration to that problem. The Government's budget was a straight-forward and honest budget, but there was a serious weakness—the use of the reserves. When that happened it was necessary that they should have some plan for the future.

He looked upon the committee as a very valuable contribution

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to what should be done to meet the situation. The question of a plan for the future was very pressing. He thought all agreed that more definite measures should be taken than had already been adopted to meet the position. He welcomed the fullest investigation of the finances—public, local body, and private—by an independent committee, and if it brought down recommendations the House would have to consider them very seriously. He suggested that the committee should consist of three members from the Government, three from the Opposition, three from the Labour party, and one from the Independents. . . . One of the matters that the committee would have to look into would be the means of putting the measure through Parliament. The committee would also have to take into account the postponement of the elections. Labour voices : "Oh !" Mr. Forbes said all questions facing the country, including the postponement of the elections, would come before the committee.

Mr. Holland announced that the Labour party would readily assent to the motion except that he did not agree to the proposal to adjourn the House. He also took strong exception to the Prime Minister's suggestion that the general election, which is due in November or December, should be postponed.

He hoped that no section of the House would give a thought to the postponement of the elections. There could be no more grave breach of confidence of the people, and the Labour party would vigorously oppose any such move. Nothing would do more to spread discontent amongst the people.

Mr. Coates was willing to meet Mr. Holland's objection to the adjournment, but he dashed any hopes that something better than inter-party consultation was in his mind.

His motion, he insisted, had not the intention of a national government ; a national government to him meant nothing. The job was what position had we got into and what was the plan necessary to remedy the situation.

After the reference to the adjournment of the House had been deleted the motion was carried without opposition and the following committee of ten appointed : for the

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Government (United party), Mr. Forbes, Mr. Ransom, and Sir Apirana Ngata ; for the Opposition (Reform party), Mr. Coates, Mr. Downie Stewart, and Mr. Jones ; for the Labour party, Mr. Holland, Mr. McCombs, and Mr. Savage ; Independent, Mr. Wilkinson. The Committee held its first meeting on August 23 and spent about a fortnight in taking the evidence of bankers, financiers, economists, farmers, merchants and others. It then decided to devote the week ending September 16 to the preparation of its report.

Nobody was surprised at the failure of the parties to find common ground which Labour could also share, but few were prepared for the agreement between the two principal parties which the Prime Minister announced on September 18.

I desire to inform the House (he said) that the information given to the Special Economic Committee, which has been sitting for the past few weeks, has disclosed the necessity for immediate action being taken in regard to the finances of the Dominion. I am therefore pleased to announce that, as a result of conferences between representatives of the Opposition and the Government parties in the House, it has now been agreed to form a Coalition Government from the two parties. It is not possible for me to make a fuller statement at this stage, but I hope to be in a position to inform the House of the details and final arrangements on Tuesday next.

On a motion for adjournment Mr. Holland and other members of the Labour party expressed a good deal of indignation at the Prime Minister's announcement, mainly on the grounds that the Committee, as its name proved, had been appointed "to deal not with political considerations but the economic conditions of the country ;" that the deliberations of the Committee had been broken off by a purely political arrangement ; and that the intended postponement of the elections would amount to "a temporary political dictatorship " which would provide "all the elements for insurrectional movements." But the chief interest of the debate turned on Mr. Coates's attitude, for he had the key of the position the whole time in his

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own hand, and he had now put it to a use which he himself had apparently regarded as out of the question only four weeks before when he moved his motion. The crucial passages in his statement were as follows :

I as Leader of the Reform party am opposed and have been opposed to anything in the form of fusion, or shall I say coalition. My statements to the country were clear, and I was sincere in those statements. But the nature of the evidence placed before the Committee was enough for any man to be concerned about the immediate welfare of this country unless the problems were tackled immediately. Those problems must be tackled with determination and absolute fairness to every citizen of the country, and on a policy or programme calculated at least to bring about stability, confidence and, I hope, rehabilitation to the country. While we are discussing elections, while we are discussing this policy and that policy, we are not getting anywhere, and it is only from a very strong sense of public duty that I have asked my supporters and candidates—and they are behind me to a man—to carry through a programme of legislation the nature of which has been discussed with members of my party and with the Prime Minister and his group, and there is general agreement as to the necessity for action being taken without any further delay. If we fail to take that action we shall be neglecting our duty to the people of this country. . . . It must be remembered that this arrangement which has been made is a combination which does not destroy either party. Since it cannot be a national arrangement it is a coalition for the purpose of passing legislation that both parties deem essential and necessary in the interests of the country.

Mr. Forbes will, it is announced, still be Prime Minister; and Mr. Coates Leader of the House. The number of Ministers will be reduced from 14 to 10. It is, however, already obvious that an effort will be made by Reform die-hards to minimise the benefit of coalition by preventing the postponement of the general election, and thus limiting the term of the new Government to about two months.*

* On September 22, the day after this article left New Zealand, the Forbes-Coates Government was sworn in, with Mr. Forbes as Prime Minister and a Cabinet of ten. Mr. Forbes explained that it was necessary to have a strong Government to take immediate steps towards financial rehabilitation. The postponement of the election was a matter for the new Government to decide. Parliament would adjourn till October 2, and the Government would announce its full policy on October 6. Some of the proposed measures, Mr. Forbes added, could not wait for a general election. On October 23 Mr. Forbes announced that it had been decided not to

The Statute of Westminster

IV. THE STATUTE OF WESTMINSTER

“**N**O carping criticism” were the words used by Mr. Coates in describing New Zealand’s attitude towards Great Britain on the eve of the 1926 Imperial Conference. In exactly the same spirit Mr. Forbes, though an opponent of Mr. Coates in local politics, declared that New Zealand had “no complaints and no demands” to bring before last year’s Conference.

I wish (he said in the House of Representatives on August 17, 1930) to make it plain at the outset that the present Government share in no less measure than previous Governments the traditional attitude of New Zealand towards the United Kingdom. We value very highly our continued association with the Mother Country, and it is our wish to maintain this association as close and as intimate as possible both politically and economically. . . . We have not in any way been embarrassed by the terms of our association with His Majesty’s Government in the United Kingdom, nor have we been restricted in the control of our affairs.

It is not disputed that Mr. Forbes, New Zealand’s representative at the 1930 Conference, was true to the spirit of this declaration, and faithfully maintained the tradition established by all his predecessors, regardless of party. The only complaint against him is that he gave an exaggerated idea of the importance which New Zealand attaches to Imperial preference, and that he interfered at times in a controversy which is a burning issue in British domestic politics, in a manner which no British Minister would dream for a moment of imitating where a Dominion was concerned. Certainly the public opinion of the Dominion would not tolerate it if he did. The second, and the more important, of these criticisms was well put by Mr. Downie Stewart during the debate on the report of the Imperial Conference on July 21.

My view of the matter (said Mr. Stewart) is that he (the Prime Postpone the general election. The Government felt it imperative that its policy of sound finance should have the country’s emphatic endorsement. Mr. Coates announced that the Reform and United parties would not break apart for the election campaign. It is believed that the election will be held on December 9. (See *The Times*, September 23 and October 24, 1931.)

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Minister) and his colleagues were quite entitled to put forward their viewpoint ; but, when it meant going right across the traditional free-trade policy of Great Britain, it was a little hard on the British Ministers to be openly accused of wobbling and quibbling. That appeared to me not to be very good form. Supposing an Imperial Conference were being held in Australia or New Zealand, and the representatives of Great Britain urged us to remove all our customs tariffs, and, on our refusing to do so on the ground that it was our traditional policy to raise revenue and protect our industries by a tariff, they indulged in remarks such as were used in England by some of the Dominion Ministers. I do not think that would tend very much towards promoting Imperial unity.

With this exception, however, the propriety of the Prime Minister's attitude was not impugned, and the harmony of the general approval was marred by no party differences. His action with regard to the Statute of Westminster was not merely approved, but highly commended. Not a voice was raised, either in the Legislative Council or in the House, to claim for New Zealand the powers which are to be extended by this Statute to the other Dominions. Yet both Chambers were able unanimously to pass the petition to the King advocating the Statute, because, at the instance of Mr. Forbes, New Zealand had been specifically excepted from its operation until such time as she elects to adopt it, a provision which elicited a handsome compliment from a political opponent of Mr. Forbes.

The exception of New Zealand from the effect of the Statute which is to be passed at Westminster (said Sir Francis Bell in the Legislative Council on July 23) is a tribute to the loyalty of this country, and a still greater tribute to the men who have had the courage and foresight to advocate it. I am sure that, in days to come, my honourable friend the Attorney-General will have the enduring satisfaction that he, as must be the case, advised, and the Prime Minister adopted, a provision in this Statute to be passed by the Imperial Parliament at Westminster which has the effect of declaring that New Zealand is not one of the Dominions that seeks to hold power or right beyond her territorial limits, or to enter into relations with foreign Powers except through the ambassadors of His Majesty.

New Zealand.

September 21, 1931.

NOTE

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OTTAWA

I. OPPORTUNITIES OF THE CONFERENCE

IT is barely thirteen years since the independent status of the British Dominions, which had developed during the war, was accorded definite international recognition at the Conference of Versailles. Amid revolutions in every sphere of life, the vast changes upon which the post-war Imperial Conferences have set their seal tend, perhaps, to be minimised by the contemporary vision. Great they certainly are, yet in one field the progress made has been, by comparison, faltering and slow. That the move towards closer economic unity should have been but tentative is not, indeed, surprising, since in the political field the tide has been set firmly towards the devolution of powers and the greater independence of the parts. Moreover, public opinion, especially in the Mother Country, was not ready for any swift advance ; established fiscal policies prevented it ; and the Conferences, preoccupied with other matters, found it all too easy to shelve the uncomfortable problem of imperial preference. To-day, there has been a change. Public opinion is prepared ; Great Britain possesses a wide-embracing tariff which she is prepared to use as an instrument of closer economic relations with the rest of the Commonwealth ; and the Ottawa Conference will have the great advantage of singleness of purpose. Its central task will be the elaboration of tariff preferences, quotas and other measures, so as to secure a larger flow of trade and greater prosperity for every member of the Empire.

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Technical preparation, which is so essential in the economic field, has not been neglected. Preliminary work has been enthusiastically undertaken officially and unofficially, both here and in the Dominions. The Board of Trade has drawn up schedules, designed to show how each Dominion could help the United Kingdom exporter, which have been forwarded to the Dominions for consideration both by their experts and by the Ottawa Conference committees of their Governments; and documents have likewise been prepared in Whitehall to indicate how we can help the Dominion producer. From the Dominions themselves, especially from Australia, come encouraging reports of discussion, consultation, and detailed investigation. Moreover, since the efforts of officials and Ministers must be ineffective without the co-operation and advice of merchants and manufacturers themselves, the prospects of a profitable issue for the Conference have been much enlarged by the decision that government delegations shall be accompanied by business representatives. Great Britain will send six such advisers, nominated by the organisations of industry, commerce, shipping, agriculture and by the trade unions.* It is much to be regretted that no financial expert appears in this list, since, as we observe below, questions of currency and credit are bound to figure in the discussions. It is expected that each of the Dominion delegations will likewise be accompanied by business representatives. Yet vital as the contact between Governments and business interests is bound to be, it will be inadequate by itself in the absence of direct consultation, both now and in the future, between groups of manufacturers in the different portions of the Commonwealth. The imperial rationalisation of industry, which should be one of the primary aims of the Ottawa Conference, cannot be achieved by the deliberations of civil servants and politicians.

* It was announced on May 3 that the advisers would be Sir Gilbert Vyle, Lord Weir, Sir Alan Anderson, Sir Douglas Newton, Mr. J. Bromley and Mr. W. Citrine.

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The importance attached by the various Governments to the Conference is proclaimed in the list of ministerial delegations. The British delegation will, it is hoped, be headed by Mr. Baldwin, and will include Mr. J. H. Thomas, the Dominions Secretary, Mr. Walter Runciman, President of the Board of Trade, Sir Philip Cunliffe-Lister, Colonial Secretary, and Sir John Gilmour, Minister of Agriculture ; Mr. Neville Chamberlain will go too if the business of the Lausanne Conference, which, whatever his personal inclinations, must be his first concern, is completed in time. That is indeed a formidable team. The character of the Indian delegation also deserves remark, for it is headed by an Indian, Sir Atul Chaterjee, and contains but one European, Sir George Rainy ; moreover, it includes the leader of the nationalist Opposition. Its composition expresses the recognition, in Whitehall and Delhi, that politically India has come of age and that she may soon have complete charge of her own fiscal affairs. The South African delegation is to be headed by Mr. Havenga, the Minister of Finance, the Australian delegation by Mr. Bruce, the former Prime Minister, the New Zealand delegation by Mr. Downie Stewart, while Canada will possess the advantage of having every member of her Government on the spot. It is, incidentally, of good omen for the success of the Conference that a commercial treaty has recently been concluded between Canada and New Zealand, which roughly speaking restores the *status quo ante* the two years' tariff war in which they had unhappily engaged.

But more important than the personalities will be the policies they represent. In recent weeks Dominion leaders have spoken with no uncertain voice, and in distinctly encouraging terms. Mr. Havenga emphatically denied the charge of the South African Opposition that the Government was apathetic about the Ottawa Conference.

On the contrary (he said), while not entertaining the exaggerated expectations manifest in some quarters, the Government is fully alive

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to the potentialities of the Conference, to which the attention of the whole world is directed in the present turmoil of tariffs and trade restrictions. The solution of problems affecting the Commonwealth may well lead to the revival of trade, benefiting not only the members of the British Commonwealth, but all other countries, whose well-being is essential to the restoration of world prosperity.

We may read into this the satisfactory implication that in South Africa's view the Conference must accomplish the reduction of tariffs and trade restrictions, and if South Africa is unlikely to be able herself to propose any far-reaching plans, her delegates will doubtless keep the Conference in mind of the fact that any attempt to construct an exclusive imperial unit or to effect the prosperity of the Empire at the expense of foreign countries would be disastrous to all.

Wise words have fallen, too, from Mr. Rhodes, the Canadian Minister of Finance. In his budget speech he declared that the forthcoming Conference would afford to the British nations an opportunity unique in their history. If, he said, the delegates met in an atmosphere charged with the determination to approach their deliberations from the point of view of mutual advantage, there would result measures which would give marked stimulus to inter-imperial trade and, besides accomplishing this primary object, would release forces and establish currents which might well flow beyond their borders to the eventual benefit of the world at large. It is clear that the current which must, above all, be set in motion is a reversal of the tide of rising tariffs within and without the Empire. That this may imply a reconsideration of some aspects of their fiscal policy by the Dominions is, apparently, realised by the Canadian Government. Colonel Sutherland, Minister of National Defence, recently warned business men of disappointment ahead, if they thought they could be merely sellers, and were not prepared to purchase British goods as well. How far Mr. Stevens, who, as Minister for Trade and Commerce, will be, after Mr. Bennett, the most important

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Canadian delegate, is thinking in terms of lower tariffs is, perhaps, more doubtful. In the budget debate he said that the Government hoped, by a readjustment of trade policies and facilities, to give to the Mother Country a larger share of the Canadian market and to buy within the Empire more commodities like rubber direct from the countries of production, and thus open up a larger part of their markets to Canadian exports ; while in a statement on the external trade of the Dominion, after congratulating the country on its resumption of the position of fifth greatest exporting country in the world, he said he anticipated that the present successful trend of their trade would be hastened by the Ottawa Conference. Nothing, however, could be clearer than that no possible success can emerge from the Conference if every participant seeks to enlarge its exports without at the same time increasing its imports. With his eye, no doubt, on the Ottawa Conference as well as on the disastrous results of excessive industrial protection, the Australian Commonwealth Prime Minister, Mr. Lyons, recently advised producers to combine in an endeavour to keep down to the minimum the protection given to industries, subject to the necessity of building up secondary industries essential and valuable to Australia. In the Empire, as in the world, the prosperity of every part depends on the prosperity of the whole. The secondary industrial producers of the Dominions cannot take in each other's washing. Their market is the primary producers, whose purchasing power depends on their ability to sell, which in turn depends on the ability of the great importing countries like Great Britain to find markets for their products. There is a circle of cause and effect which can turn viciously or favourably. The task of the Ottawa Conference is to reverse the vicious tendency it has displayed of late years. "The Empire," as Mr. Latham, the Australian Attorney-General, said the other day in London, "is already a vast system of mutual markets. Within this system, for all parts of the Empire there is political security—in itself a very real

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commercial asset. Within the Empire sentiment and interest march together."

These declarations by responsible Ministers allow us some assurance that the greatest danger with which the Ottawa Conference was threatened—that it would become a ~~man~~ in which "sacrifice" would be dearly exchanged against sacrifice—will be averted. To ask any Dominion, or Great Britain herself, to relinquish any vital principle of her economic policy for the sake of imperial fiscal arrangements would be not merely futile ; it would jeopardise the whole of the good relations that exist among the partners of the Commonwealth. Those principles safeguarded, the condition of the success of the Ottawa Conference—and here we are reiterating the considerations that were elaborated in an article in our March issue*—is that, on balance, it must produce a lower and not a higher level of ~~tariffs~~. We seek more trade among the countries of the Commonwealth, but not at the price of less trade with others. Every participant in the Conference comes at once as a buyer and as a seller, and comes, moreover, with the knowledge that not even the completest economic union could render the fortunes of the Empire independent of those of foreign countries ; but none is more acutely aware of that than Great Britain. Mr. Baldwin recently stated our problem in terms of a choice of paths. "The natural destiny of our country is economic union with our own flesh and blood. If that cannot be accomplished it may well be we shall be driven to look towards Europe." But that is a false contrast, for we could never prosper by an economic arrangement with the Dominions which excluded us from the opportunity of sharing in plans for widening markets in Europe and elsewhere. The war and economic changes have lowered our ambitions, for we no longer grandly aim at being the workshop of the world ; but they need not narrow our vision. Imperial myopia is fortunately not a failing of Mr. Runciman. "Highly as we prize the privi-

* See THE ROUND TABLE, No. 86, March, 1932, pp. 251-256.

The Sterling Group

leges we enjoy," he said at the British Industries Fair, "in the markets of our kinsmen and fellow-Britons beyond the sea, and the extension of their opportunities here, we are also anxious not to lose any opportunity of strengthening our trade relations with foreign countries." Our special economic ties in the Argentine and with Scandinavia need no emphasis, while our vital concern with other parts of Europe has been brought home to us by the inconclusive London Conference on the Danubian customs preference scheme. The Dominions themselves have similar problems; the time may come, for instance, when Canada will wish to negotiate a preferential trade treaty with the United States, to their mutual advantage, and she would justly complain if she were prevented by her imperial undertakings. The British Empire is a convenient unit within which to mitigate tariff restrictions and to stimulate the flow of trade, but it can never become economically exclusive.

II. THE STERLING GROUP

AT this moment the Empire is marked out, along with certain other countries closely associated with it in trade and finance, from the rest of the world by the simultaneous depreciation of most of its currencies, in terms of gold, after the suspension of the gold standard in Great Britain last September. Can we, at Ottawa or as a result of deliberations there, profit permanently by this fact in establishing an Empire currency system, including therein the Scandinavian currencies and others whose dependence on sterling and on the British economic system has become apparent? The idea is one which has appealed to many of our leading publicists, politicians and business men. Moreover, the Canadian Parliament recently resolved that the Canadian representatives at the Conference should initiate and support measures for the stabilisation of the currencies of all British countries in such a manner as to facilitate trade

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between them and to promote the economic unity of the Empire; while in the New Zealand House of Representatives Mr. Downie Stewart, the Minister of Finance, declared his satisfaction that the Ottawa Conference would enable the whole price level problem to be approached from the Empire standpoint, believing, as he did, that concerted action on an Empire scale to raise the sterling price level for primary products might be possible. Since the revival of prices must be far more important both to Great Britain and to the overseas parts of the Empire than the reservation of markets can be, and since tariff measures closely affect the possibilities of monetary manipulation, the general discussion of imperial preferences is bound to raise questions of currency and credit. Mr. Runciman himself, speaking at a London Chamber of Commerce dinner the other day, said that the only way to escape the continuous sag of world prices was for all countries who were linked up with sterling to support each other; that was one of the justifications for making closer union within the British Empire, and afterwards we might well invite other sterling countries to enter into closer relationship with us.

But in no field is it more important to hasten slowly than in monetary organisation, for a currency system, once established, cannot be abandoned without catastrophe. It is clear that neither banking organisation, beset with urgent problems of self-preservation, nor public opinion, shocked by the apparent failure of the existing system to cope with the changes and chances of our post-war life, is ready for a super-central bank, a brand new currency for Empire trade, or any other ideal scheme. Moreover, such is the domination of London in the financial world that the fortunes of the whole new monetary structure would depend upon those of sterling; hence, quite apart from any suspicions which might be aroused in the Dominions, revalorisation of Empire currencies must wait until the future of the pound, whether as a freely managed currency or as linked

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with gold at its old or some new level, can be decided, and that is out of the question until we have had longer experience to indicate its true value. Narrow limits are therefore set upon immediate action, but what might be effected at Ottawa is the *de facto* stabilisation of Empire exchanges—not necessarily permanent, for there is nothing sacred about the present or the former rates of exchange—and closer co-operation between the banking authorities of the Dominions and the Bank of England. Between them they may find means, within the existing system, for accomplishing what Mr. Stewart urges. Looking farther ahead, the importance of international long-term lending in the world's economic system, as revealed by the present trade depression, indicates the need for a consultative loan council for the Empire. But if these things are to be discussed, and it is certain that they will be, the delegates must be accompanied by experts in finance as well as in agriculture, industry and trade.

III. ORGANISATION

THE general conditions of imperial preferential arrangements, as well as the technical details, being so complicated, we should be unwise to hope for a comprehensive series of agreements at Ottawa; it will certainly prove impracticable to achieve very much more than agreement in principle. When the Conference is over, the several Governments of the Empire will formulate their economic policies under the guidance of its resolutions until the time has come to review results and make plans for a fresh advance. But many people feel that imperial relations in the economic and allied spheres can no longer rest merely upon periodical conferences of responsible Ministers. There exists, indeed, a number of permanent imperial bodies, but their status varies, their public estimation is inversely proportionate to their number and

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the specialist character of their tasks, and their work is inadequately co-ordinated. In a report prepared before the 1930 Imperial Conference, the Federation of British Industries pointed out that "it is a regrettable fact that better machinery exists, in connection with the economic section of the League of Nations, for discussing economic problems with foreign countries than is the case with our sister-nations of the British Empire." The Federation therefore recommended that as soon as possible an imperial trade conference of experts should be held, of an investigatory, advisory and non-political nature, with a view to laying down a sound basis for an imperial economic policy; furthermore, that an imperial economic secretariat should be established formed of men with economic and administrative experience, drawn from all parts of the Empire, to act as a permanent secretariat for the Imperial Conferences. A short while ago the General Council of the Trades Union Congress went to the length of sending a formal deputation to the Dominions Secretary to urge upon him the adoption of the policy which the Council put forward before the 1930 Conference, and which took much the same form as that of the Federation of British Industries. Mr. Thomas, in reply, confirmed his "unabated support of the principles contained" in the Council's memorandum.

The scheme thus endorsed by both parties to our industrial system is so bold and far-reaching that one is moved to reflect that our imperial constitution has developed by much less drastic and more evolutionary steps. The surest way to approach this problem is by way of considering the machinery that already exists. The Imperial Economic Committee, comprising representatives of the British and Dominion Governments, and responsible to those Governments, was set up by resolution of the 1923 Conference; the latter proposed for it a very comprehensive scope within the economic field, but, largely owing to the scruples of one Dominion, its actual work was confined for a while to investigations into the marketing of certain Empire

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foodstuffs in the United Kingdom. The 1930 Conference, however, greatly enlarged its terms of reference, which now include, *inter alia* :—

To facilitate conferences among those engaged in particular industries in various parts of the Commonwealth, and to examine and report on any economic question which the Governments of the Commonwealth may agree to refer to the Committee.

The Empire Marketing Board was constituted in 1926 by the British Government to administer a grant voted by Parliament. The 1930 Conference, after surveying the Board's work, passed the following resolution :—

The Conference . . . is satisfied that it is valuable to the Commonwealth as a whole, and recommends its continuance and extension in certain directions, notably in the spheres of market intelligence, statistical surveys and market promotion . . . The Conference commends especially that feature of the Board's policy which aims at the concentration and development in the most appropriate centres of scientific team work upon problems of interest to the Commonwealth as a whole.

The Board, for which an income of £1,000,000 per annum was originally proposed, has spent in the six years of its life some £2,900,000 ; the greater part of it has been used for scientific research and markets investigation, while about £1,100,000 has been devoted to publicity. Grants made by the Board for research and development have covered such subjects as food preservation and low temperature research, animal husbandry, plant breeding, the export of pedigree live stock, and mechanical transport. In the development of markets its efforts have included weekly intelligence services on fruit and dairy produce, the issue of statistical surveys of world production and trade in certain agricultural products, surveys of retail distribution, etc. As a measure of economy, the Board's vote for 1932-33 has been cut down to £300,000.

Besides these two important economic bodies, there are a number of organisations, such as the Imperial Institute,

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the Bureau of Hygiene and Tropical Medicine, the Imperial Institute of Entomology and Mycology, the Executive Council of Imperial Agricultural Bureaux, which in their own respective technical fields are carrying on work for the benefit of the Empire as a whole, often with funds contributed by the Dominions and Colonies as well as by the Imperial Exchequer and private sources. For one purpose or another, most of them have received grants from the Empire Marketing Fund, and their work has been of constant assistance to the Imperial Economic Committee, the Ministry of Agriculture and Fisheries, and other economic bodies. Indeed, the application of scientific research to commercial needs has become one of the most important aspects of imperial co-operation. Undoubtedly the work would proceed with greater economy of effort, and its results would be more fruitfully disseminated, if these institutions were possessed of a common centre for the co-ordination of their inter-imperial work, much of which cuts straight across the administrative and constitutional division into Dominions, India and Colonies. Moreover, the creation of such an organisation would give to each member of the Commonwealth a sense of co-operation in a common enterprise (enabling Canada, for instance, to take an active part in the development of the West Indies), and would concentrate the interest and zeal of High Commissioners and other Empire representatives, which at present is dissipated among a number of institutions, no one of them being in itself comprehensive or important enough to arouse enthusiasm. We are far from suggesting that a new super-institution is necessary. Rather we believe that some of the bodies, say the Empire Marketing Board, the Imperial Economic Committee, the Council of Agricultural Bureaux, might merge their functions while continuing much the same loose connection with the more technical authorities as they possess at present. The problem is not, in these days, one of organising fresh and ambitious development, but rather one of administering

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reduced resources to the greatest advantage of the whole Commonwealth. Lest the extent of the change should be exaggerated, it would be well if the new authority were to adopt the name of one of the existing bodies ; henceforward we shall, therefore, refer to the proposed institution as the imperial economic committee.

The title which we use for convenience is not meant to beg any questions as to the body's structure and membership. The first point to be decided is that of its scope and function. While to some extent they must be left to take shape as the committee wins the confidence of the various members of the Commonwealth, its general field may be described as that of non-contentious co-operative endeavour—already large and, as the Select Committee on Estimates acknowledged, bound to grow steadily “as the value of such co-operation comes to be more and more appreciated.”

In the first place, the committee's terms of reference should cover the present activites of existing institutions such as those listed above, and the normal development thereof. They include scientific research, investigation of markets, commercial publicity, agricultural economics, the promotion of industrial and other technical conferences, the dissemination of scientific knowledge—interpreting “science” in its broadest sense. But, beyond that, the committee should be prepared to undertake any function, within the economic and scientific spheres, that might be laid upon it by the unanimous wish of the several Governments of the Empire. It might, for instance, carry on the work of the present Imperial Economic Committee in promoting the rational division of industrial production between the countries of the Empire, acting in this field largely through the agency of industrialists themselves. One extremely important function which it might soon assume is the co-ordination of Empire statistics, a matter which has received the attention of successive Imperial Conferences without any palpable result, largely because

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the highly desirable centralisation of our own official statistical work has not yet been accomplished.

But the absence of specific restriction upon the scope of an imperial committee should not be interpreted as a licence to embark at once on the grave and controversial business which some of its advocates would regard as its principal *métier*. To suggest, as the Federation of British Industries seems inclined to do, that the creation of such a permanent organisation would "take economic relations out of the political field" is to fly in the face of fact. Fiscal autonomy, by which is meant the unqualified and unquestionable right of each succeeding responsible Government to alter the tariff as it pleases, subject only to properly concluded external treaties, is among the most dearly cherished of the Dominions' privileges. At home, in spite of the change that has come over the political scene and the erection of a general tariff, there is no subject over which the politicians more furiously rage. To make the imperial economic committee responsible for the formulation of tariff preferential policies, in the sense in which the Import Duties Advisory Committee is to be responsible for the formulation of tariff policies in this country, would at once prejudice the whole of its scientific work and alienate the esteem of large sections of public opinion. It would seriously endanger, too, the smooth and amicable working of the committee itself. That is not to say that questions associated with tariffs should be automatically excluded from its purview. The assembly and rationalisation of statistical and other facts concerning some definite aspect of imperial tariff relations would be a proper task for the experts of the committee, if its reference to them was unanimously agreed upon by the interested parties.

Thus limited in its field, the establishment of the committee would not involve acutely those questions of responsibility which have exercised many critics. The Imperial Economic Committee, and the Executive Council of Imperial Agricultural Bureaux, which are responsible

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the Governments of all the participating members of the Commonwealth jointly and severally, perform their advisory and even executive tasks without any serious collision with constitutional difficulties. In these days of specialism and complication in government, it is foolish to try to compress political organisations within the forms and categories of Montesquieu or Mill. The kind of organisation that is suggested is a small secretariat with a permanent head, acting under the authority of a committee representative of the different parts of the Empire, which would assume intermediate responsibility for such executive work as it would fall to the organisation to perform.

It is not suggested that additional expenditure would be necessary to carry out the plan. Neither the overhead costs nor the direct expenses on publicity, markets investigation, economic research, and so forth, need be greater than those at present incurred by the merging bodies. Nor does the establishment of the new committee imply any enlargement of the grants which are now awarded to the technical institutions. It is essential to the success and esteem of the committee as a co-operative enterprise that the Dominions should contribute to its maintenance, but their economic difficulties, which are no less than our own, might ban any scheme involving them in any fresh expense at this moment, so to begin with they might be prepared simply to continue, as block grants, the sums that they now pay direct to the various existing inter-imperial bodies, together, perhaps, with some general contribution. Further, just as the British Government has financed the promotion of the sale of their products in Great Britain, through the Empire Marketing Board, so, when the time comes, it is certainly to be hoped that they will feel prepared to subsidise and conduct the promotion of the sale of Empire goods in their own markets. Again, there will no doubt be some pieces of practical research work which it will be requisite and necessary to conduct in the overseas Dominions—concerning, let us say, fisheries in Canada or

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Newfoundland, or wool husbandry in Australia. In such cases it would be natural that the Dominion particularly affected, within whose jurisdiction the work was being carried out, should bear a considerable part of the expense. A body of practice in financial matters would thus be built up, and later, as the reputation of the organisation grew, the Dominions might prove willing to contribute regular and substantial sums to the general cost.

IV. MIGRATION

THREE is one further question which it might be suggested should come within the purview of the committee, and that is migration. But, unfortunately, that is no longer covered by the description of "non-contentious co-operative endeavour." The problem of emigration has violently and disastrously changed in the past few years. In 1929 the net balance of British passengers departing from the United Kingdom for places outside Europe was 92,551, of whom 67,671 were leaving for other parts of the Empire. In 1931 there was actually a net inward balance of 35,249, of whom 22,858 had returned from the Dominions and Colonies. The distress of some of the unfortunate emigrants who have been forced by adversity to return has received much publicity in this country, especially in the organs of the Opposition. "The hopelessness of the vast Dominion," "Thousands of young Englishmen lining up in bread queues"—these are the phrases upon which the opinion of the electorate is being nourished. A petition was recently presented to the House of Commons, reputed to be signed by fifty thousand British-born people who having emigrated to Australia, now seek repatriation, complaining in bitter terms of the "extravagant, misleading and in many cases indubitably false" statements with which they were persuaded to emigrate. Whatever truth there may be in these strictures—it is clear that many of them

Migration

are untrue in fact and in inference—the Governments of Great Britain and the Dominions cannot escape all responsibility for past emigration, and they have burnt their fingers badly. For some time to come, therefore, it seems likely that government assistance in this field will be confined to discreet subventions to approved private bodies who will otherwise assume complete financial and general responsibility for their schemes of emigration, and to the resumption of subsidised ocean passages.

That is not to say that the problem can or ought to be avoided at Ottawa. A conference which shirked tasks merely because they were unpleasant or difficult would not hold any hope of real success. Movements of men and movements of goods and capital are tightly linked factors in the world economic system. Advocates of imperial preference in this country frequently claim that although Dominion markets, measured by head of population, are comparatively small, they are expanding through the flow of emigrants, and that their prosperity involves not only wider opportunities for our trade but also an outlet for our excess population. The 1930 Conference declared that the successful solution of the migration problem "depends upon the availability of adequate markets for the products of the Empire and of sufficient capital for the development of its resources." From our point of view in Great Britain, we have regretted that the process of emigration naturally robs us of some of the best, because the hardest and most adventurous, elements of our population. Critics in the Dominions, by contrast, have sometimes complained, especially in the last few years, that their countries were being used as a dumping ground for the cast-offs of our industrial system. The Ottawa Conference has an opportunity to formulate a wider view of population movements, from the standpoint that the Empire is, or might become, a co-operative economic group with a common purpose transcending its political divisions.

Both sentiment and circumstance favour at this moment

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the realisation of that principle, which is the key to success at Ottawa. The change of feeling both here and in the Dominions we have sufficiently recorded in our previous article. In the economic *mélée* into which the world has been plunged, Empire countries, and especially Great Britain, have been among the first to recover their breath. Now is the chance to make an effort to escape, and at the same time to lead the rest of the world. The inter-dependence of the countries of the British Commonwealth, and their value as an economic group, have been underlined by the simultaneous depreciation and resuscitation of sterling and other currencies of the Empire, but the difficulties of the currency question warn us not to pitch our hopes of the outcome at Ottawa too high. We are seeking to reverse the tendencies of decades. Still, the opportunity is as great as the task, and if we can show the first hints of success we shall have given both example and encouragement to a distressed and leaderless world.

POSTSCRIPT.—Since the above was written, the report of the Committee of the Economic Advisory Council on Empire Migration (Cmd. 4075) has been published. The Committee, after considering the progressive decline in our birth rate, and the likelihood of a gradual readjustment of our industrial life, conclude that "we are now confronted with a profound disharmony between the economic needs of Great Britain on the one hand, and the Dominions on the other, in regard to migration. Now that it might seem to us to send large numbers of our people to the Dominions, it does not seem that the Dominions to receive them. When the time comes that the Dominions will again welcome immigrants, it may not be to our economic interest to supply the need." Nevertheless, by reason of other factors, not least because "the sense of unity which animates, and is the main connecting link between, the self-governing parts of the British Commonwealth is largely dependent on the preponderance of British stock in the population of the Dominions," the Committee hold that "when the depression has passed"—but not before—"it will again be desirable for His Majesty's Government in the United Kingdom to grant financial assistance on a substantial scale towards oversea settlement within the Empire."

THE ROUND TABLE

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REFLECTIONS ON THE CRISIS

I

IN the tragic drama, the critics tell us, the master-craftsman will interrupt the inevitable progress of his theme to its catastrophe, so that our minds may come to the climax cleansed, indeed, but not exhausted by those emotions of pity and terror which tragedy awakes. We find relaxation and repose, before the ultimate and almost intolerable strain of the tragic ending, through the withdrawal of Lear from our sight or the scene with the gravediggers or the prattle of her son to Lady Macduff.

For twelve months the course of world affairs has followed the authentic construction of tragedy. Blow has succeeded blow, and the world has seen its economic life exposed to the relentless interaction of disintegrating forces. Now, in an interlude of relative calm, it awaits the unfolding of the drama in which its members, "themselves the authors of their proper woe," are the players. When and where the next blow will fall, whether the processes of destruction can be arrested or will exhaust themselves, or by undermining its material foundations will bring down the structure of our modern civilisation in ruins — all these things are wrapped in obscurity. Nothing is certain except that nothing stands still. The world is moving, even though imperceptibly, either towards recovery or away from it.

This may be thought to be the language of despair. We live in an age in which the human race is perhaps more

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instinctively optimistic than ever before in its history. Our own generation has seen such amazing achievements in the conquest of matter, in the subordination of the forces of Nature to the needs of man, that we are apt to overlook not only the delicacy and the artificiality of our economic and financial background, but its ultimate dependence, now as always in the past, on that moral and political sphere in which the progress of the modern world has been so immeasurably less significant.

A political survey of the world to-day discloses little ground for optimism. The crisis has, indeed, confirmed what few Englishmen in their hearts have ever doubted, the genius of their own race and the aptitude of their institutions for government in an emergency. But it has also renewed the old doubt whether in a period of unusual and protracted difficulty the constitutional system and the political practice of the United States are consistent with effective government or lead unfailingly to the spectacle now staged of interminable and profitless wrangling between the executive and the legislature. In Europe we find little but mutual suspicion and unbending nationalism: France, intent on security, a security measured in terms of the weakness of Germany and dependent on the integral maintenance of the peace treaties and the alliances that have grown out of those treaties; Germany, on the other hand, disillusioned and despondent, with no democratic tradition and little faith in democracy, without prospect of a Government founded on general consent, torn between the revolutionary doctrines of communism and the empty and theatrical bombast of the pseudo-fascists. No nation can pursue a consistent or fruitful foreign policy if it has no assurance of stable government at home. With the foundations of government shaken, as in many parts of Europe, the difficulties of international co-operation are intensified and the springs of goodwill and tolerance and enlightenment are dried up. It is, perhaps, a sign of the times, and not a mere idiosyncrasy of the Irish mind,

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that Mr. de Valera should have chosen this moment to cast off the shackles of a decade of friendly co-operation and to put in its place embitterment and isolation.

In the economic sphere, every day provides fresh proof that the nations of the world are economically interdependent and that their financial life is built up on confidence. Yet everyday records some new shock to confidence, some other attempt to attain national self-sufficiency. As the fall in prices continues,* its effects are seen to be progressively more serious. The most formidable problems are set when all money burdens remain constant and prices of all goods are lowered. The economic machine is thrown out of alignment and is subjected to strains and stresses which it was not designed to carry. There is dislocation in budgets, dislocation in the national balance of payments, dislocation in the productive organism. The life of nations and of individuals becomes a struggle not to create wealth, but to arrest its destruction. Producers strive to adjust their costs to prices, wage-earners fight against the reduction of their wages, debtors all over the world are submerged beneath the immensely increased burden of their debts, creditors seek to maintain their claims and protect their assets. In the struggle between producers and wage-earners, between debtor and creditor classes, the machine slows down and production dwindle. The industrial production of the world† rose from 100 in 1928 to a peak of 112 in 1929, and by December last had fallen to 80. Total production (1928=100) had dwindled by December last to 69 in Canada, to 87 in France, to 59 in Germany, 60 in Poland, 92 in Great Britain, and 67 in the United States. Production means income, and such figures as these imply a fierce struggle everywhere for the division of a vastly diminished aggregate income.

* Wholesale prices in America have fallen 31 per cent. since September, 1929, and over 6 per cent. since September, 1931. Wholesale prices in the United Kingdom converted to a gold basis have fallen over the same periods by 46 per cent. and 24 per cent.

† Index of the Institut für Konjunkturforschung.

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The first and chief sufferers are the unemployed, then those with variable money incomes or incomes derived from foreign investment, last of all the wage-earners. By the transfer of wealth from the *entrepreneur* to those with fixed money claims, enterprise and development are stifled, the universal dislocation becomes progressive and the struggle is renewed and intensified.

If it was inevitable that governments should seek to intervene in this imbroglio, it is certain that their intervention has on the whole aggravated the process of disintegration. Government action springs from the desire to mitigate necessary readjustments and from the fear of economic changes leading to social chaos. Thus it has seemed to the countries of central Europe vital to maintain the nominal gold value of their currencies because they regarded the social consequences of a second inflation as hazardous in the extreme. Exchange control, import quotas and restrictions are the natural instruments of that policy. Exchange control to be effective must be complete, and to be complete necessitates the control of all economic activity. The economic life of Germany to-day is effectively managed not by industry nor even by the State, but by the Reichsbankdirektorium, and the result is to tighten the noose that is strangling production. Again, in the effort to achieve a positive balance of payments, every country finds it easier, in a world in which there are no buyers, to reduce imports than to increase exports. But one country's imports are the exports of another, and this general forced abstention from importing must in the long run bring all international trade to an end. If pursued, it cannot fail to reduce the whole standard of our civilisation.

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II.

HOW is the world to escape from this impasse ? The economic disorder is due primarily to the rapid fall in prices, and it is clear that a general rise in prices to the level of 1928-29 would be by far the most powerful and universal remedy. Leaving for a moment the question whether anything can be done to stimulate such a rise, let us look at the alternative. It is that the world should go through a long agony of adjustment to a lower price level, with all that it involves—the writing down of indebtedness of every kind, internal and external, the reduction of wages and other fixed incomes. This process can be seen operating to-day, but it would need to be carried a great deal further. It would mean repudiation by governments, drastic reorganisation of the capital of public companies, statutory lowering of interest rates and fixed charges, as in Germany. It would bring with it increased unemployment and a general lowering of the standard of life, and no one can foresee what social consequences would follow in their train. On every ground the alternative to a rise in prices is one which no class and no nation can contemplate with equanimity.

But to ask how a rise in prices can be brought about is to plunge into one of the classical controversies of the economists. There are those who would have us believe that our economic life is entirely dominated by monetary factors, and that the central banks, even though through ignorance or perversity they may deny it, have it in their power to produce a trade boom or a trade depression by the simple and infallible expedients of cheap or dear money. Others would allow monetary factors a quite secondary rôle, and would maintain that money follows trade, not trade money. In other words, that an over-production of commodities leads to a fall in prices and that prices will

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rise again only when the statistical position encourages buying for a rise—in such controversies truth often lies roughly midway between the extremes. The layman finds it difficult to believe that if central bankers are omnipotent, able men should have practised that profession for so long without discovering the fact. It is not a normal characteristic of any profession to undervalue its own importance in the world. To the layman, again, it must appear unlikely that the abundance or scarcity of credit is without influence on the moment at which the speculative buying of commodities will begin, and private enterprise feel justified in entering upon constructive works of capital improvement. But if wisdom lies in the mean, we shall incline to the view that the operative factors are many and their interactions extremely complex, and for that reason we shall be cautious in announcing panaceas.

Certain facts in the situation stand out. The first is that world stocks of many of the principal commodities are exceptionally large. Of that the following table is sufficient indication.

WORLD STOCKS OF PRIMARY COMMODITIES			
	At Beginning of 1929	At Latest Date	Date
American cotton }	3,494,000 bales	8,760,000 bales	April 1, 1932
Copper	292,000 tons	623,000 tons	October 1, 1931
Tin ..	25,000 tons	61,500 tons	April 1, 1932
Rubber	266,000 tons	644,000 tons	March 1, 1932
Sugar ..	4,422,000 tons	8,641,000 tons	March 1, 1932
Coffee ..	15,703,000 bags	34,179,000 bags	March 1, 1932
Wheat	565,000,000 bushels	542,000,000 bushels	December 1, 1931

* It is true that stocks are held to-day to a quite exceptional extent by the producer, for the reason that merchants and consumers have lived from hand to mouth. In that respect, the technical position is favourable for a rise, once confidence is restored and buying begins. But when we consider these figures, and others like them, when we are told, for instance, that there is in the world a stock of

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Chilean nitrates equal to three and a half years' consumption, we are bound to acknowledge the existence of a formidable obstacle to an early or rapid rise in prices. A second fact which we cannot overlook is that the power of Great Britain to influence the course of world prices by its monetary policy is not the same as that of countries, such as the United States, which have remained on the gold standard. Any appreciable rise in prices in America must have world-wide repercussions through the gradual redistribution of the gold stock. In theory at least, a rise in sterling prices should lead to a fall in the gold value of sterling and be without any certain and direct influence on prices outside those countries which follow sterling and not gold. But in the conditions of to-day, it is clear that relative price levels are not the only determining factor in exchange rates. The present strength of sterling, for example, is due in part to large movements of capital resulting from a revival of our world prestige in recent months and from distrust of other currencies; and in such circumstances there is reason to believe that the exchange could be held even against an appreciable rise in sterling prices. As a nation we have an overwhelming interest in the revival of world trade, and that interest demands that we should exhaust every means in our power, by low money rates and a reasonable expansion of credit, to help in raising prices in the area in which the influence of sterling is dominant.

But even if our own authorities and those of the United States actively pursue a policy of cheap money, it is essential to remember—and this is our third fact—the importance of political and psychological factors in the present situation. Throughout the world there has been a breaking down of confidence. The world as a whole has lost faith in international co-operation; America has written off Europe and Europe America; many nations have come to mistrust or to despise the governments and even the political institutions under which they live, others are

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suspicious, often with good reason, of their banking systems. A succession of scandals, not confined to any nation and culminating in the Kreuger affair, has so shaken confidence in the larger business undertakings of our time as to threaten, often by false analogy, the whole modern trend towards rationalisation. Monetary policy can do little to restore confidence, yet prices are not likely to rise nor trade to revive without it. It will return in any event only gradually and with faltering steps, and to assist it on its way is the most pressing political task of the moment.

Governments can exert a great psychological influence in two directions—by discarding functions for which they are unfitted and by working for a settlement of outstanding international problems. Modern economic organisation is admittedly imperfect, but it is never so imperfect as when governments attempt to direct it. Their intervention is haphazard and it is, in a business sense, irresponsible, since it is subject to no penalty for failure. Much of central Europe to-day is within hailing distance of the Soviet system, which requires all foreign trade to be in the hands of the State. There is no half-way house between that system and private enterprise, and the only result of the attempts by governments to regulate private enterprise in times of crisis by exchange control, quotas and similar restrictions is that they prevent the economic organism from exercising the power inherent in it of correcting its own excesses. Trade cannot again flow freely until currencies are allowed to find their own level, and it seems probable that others will be compelled to follow the example of Greece in abandoning the pretence of a gold parity which has lost all reality.

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III.

WHEN governments turn to their legitimate function of political appeasement, they soon find that incomparably the most difficult international problem of our time is that of Franco-German relations. It penetrates into every nook and cranny of European politics, and the failure of Europe to solve it has contributed more than any other factor to the estrangement of Europe and America. The abortive French plan for a limited Danubian federation is an admirable illustration of what is meant by these statements. The succession States of the old Austro-Hungarian Empire, with the possible exception of Czechoslovakia, are all in varying degrees economically and financially embarrassed. Their budgets are unbalanced, they are either in default on, or find difficulty in meeting, the service of their external debts, and if they have contrived to maintain a precarious adherence to the gold standard it is only by the exploitation of every known device for the control of exchange and at the cost of the virtual abandonment of foreign trading. They are the victims not only of the fall in prices but of the disruptive provisions of the peace treaties. The history and the details of the proposed Danubian plan are in some respects obscure. It appears to have originated in a suggestion of the British Government that the Danubian States should re-establish the *Zollverein* which existed under the old Empire. The suggestion was resisted and M. Tardieu then came forward with his Danubian plan.

In outline the French proposal, which covered Czechoslovakia, Austria, Hungary, Jugo-Slavia and Roumania, was that those countries should establish reciprocal preferences to the extent of 10 per cent. of existing tariffs; that certain countries outside the group, notably Germany and Italy, should grant the Danubian countries preferential entry for their agricultural products, without any direct

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advantage in return; and that a loan of \$50,000,000 should be raised on the guarantee of the lending countries (presumably France and England) and spent, under international control, for the protection of the budgets and the exchanges of the Danubian group. These proposals foundered after two days' discussion at the London Conference, owing to the refusal of the outside Powers, and in particular Germany, to abandon their most-favoured-nation rights. Probably from every point of view it was better that they should founder. The plan was too narrowly restricted in scope to bring much lasting benefit even to the Danubian countries. It involved expensive palliatives in the form of fresh loans for dubious objects. It would have strengthened the French hold on the Little Entente and would have reinforced the political with the economic isolation of Germany.

When the Lausanne Conference meets in June, it is to consider not only reparations but also the plight of the Danubian States. The Conference can do more than any other single agency to restore confidence and thus to launch a revival of world trade; it can also postpone that revival indefinitely. In a sense the problem of reparations has solved itself, since a renewal of reparations payments is not in sight. But what the world needs is not acquiescence in a temporary default, but a lasting settlement as part of an honourable *modus vivendi* between France and Germany. It is idle to speculate on the prospects of the Conference. All but the strongest governments are the servants of their public opinion, and it seems unlikely that either France or Germany will be represented at Lausanne by a government drawn from an assured and durable majority in Parliament or the country. This is one reason the more why it is right that the British Government and, if his health permits, the Prime Minister, should continue to exert in favour of a settlement all the influence which in such situations can properly be claimed by those who have vital interests at stake and are yet essentially disinterested.

IRELAND AND THE TREATY

EDITOR'S PREFACE

AN account of what has been happening in Ireland since Mr. de Valera's accession to power will be found in the article from the Irish Free State that follows. In this preface we give our own view of his action with regard to the Anglo-Irish Treaty of 1921, and the Irish Land Annuities, and of the course to be followed by the British Government.

First to deal with the oath, the form for members of the Oireachtas* was set out in Article 4 of the Treaty.† From the British standpoint, the essence of the Treaty was that Ireland should remain in the British Commonwealth of Nations, and the oath was the earnest of her intention to do so. Her status was to be that of the Dominions, and her position in relation to the Imperial Parliament and Government, and otherwise, that of Canada. Due effect was given to the provisions of the Treaty in the Irish Free State constitution. Article 17 reproduced verbatim the oath clause (Article 4 of the Treaty) and prescribed the time and manner of taking the oath for every member of the Oireachtas. Article 55 imposed the same duty on Ministers who happen not to be members of the Oireachtas, and therefore are not covered by Article 17. Up till now the oath has been taken by both Ministers and members alike, including Mr. de Valera himself and the members of his party. The Treaty has been loyally kept by both sides for the last ten years.

At the instance of Mr. de Valera, however, the Dail has now passed a Bill to delete both Articles 17 and 55 from the constitution and thus abolish the oath. It

* The Irish Parliament.

† For the actual words see page 503 of the article that follows.

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has done more. Section 2 of the constitution gave the Anglo-Irish Treaty the force of law and provided that, in the event of any conflict between its provisions and those of the constitution, or of any amendment or law passed under the constitution, the Treaty should prevail. The Bill would also delete this section, and the words in another Article (50) limiting amendments to those which do not infringe the Treaty.

These are vital alterations, and they have been deliberately introduced—Mr. de Valera has himself told us so—without any previous consultation with the British Government, the other party to the Treaty. In our opinion, Mr. Thomas is right—"the Bill is nothing less than a repudiation of the settlement of 1921 as a whole." It cannot be justified by the Statute of Westminster, or anything else that has happened since the Treaty was signed. When that Statute was before the House of Commons last November, the British law officers gave it as their considered opinion that the binding character of the Treaty would not be altered one jot or tittle by passing it. It is Professor Berriedale Keith's view* that, notwithstanding the Statute of Westminster, as the Constituent Assembly of the Free State definitely enacted that the Treaty is superior to any provision of the constitution, and of any amendment thereto, the Oireachtas cannot legally pass any enactment which runs counter to the Treaty, and that any such measure would have to be held invalid by the Irish Courts as a mere matter of law. But, even if the Statute of Westminster had removed the obstacles in the municipal law of Ireland to her breaking her word by deleting the provisions in her constitution which gave effect to the Treaty, it would still have left that Treaty absolutely intact between England and Ireland. Obligations of good faith would still have stood in the way of the course taken by Mr. de Valera. As Mr. Cosgrave, then President of the Executive Council of the Irish Free State, reminded Mr. MacDonald in a letter

* See the *Manchester Guardian* of May 2, 1932.

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which was read to the House of Commons in November, "we have reiterated time and again that the Treaty is an agreement which can only be altered by consent."

What then should Great Britain do in this dilemma, which has been thrust upon her? Our people have the friendliest feeling towards the inhabitants of the sister island, and there is nothing we desire more than good relations with them. At the same time, our Government could hardly shut its eyes to so deliberate a breach of agreement, and go on as if nothing had happened. It is, moreover, Mr. de Valera's intention that more shall happen, and his action with regard to the oath is merely a first step. He announced in the Dail, at the second reading of the Bill to alter the constitution, the readiness of his party to lead the Irish people on to complete independence, as soon as they are ready, and his acceptance of the invitation to Ottawa would merely seem to indicate a desire to get the best of both worlds until the final step is taken. A suggestion was made in the House of Commons that we should consult with the Dominions, and a question which involves a risk of the Commonwealth losing a valued member must obviously be brought to the notice of the Imperial Conference. But that is a very different thing from asking the Conference to decide what we ourselves ought to do in a case which primarily concerns Ireland and ourselves alone. The responsibility of making up our minds could not fairly or effectively be put upon others. As the Secretary for the Dominions replied when the suggestion that we should consult the Dominions was put to him, "it is a difference between two parties to an agreement. One of the parties has repudiated it. There is no more to be said."

In our opinion, we should take our stand upon the Treaty and wait, confident that the Irish nation, in whose good faith we shall continue to believe, will return to it. Meanwhile our Government has, we consider, adopted the only course that was open to it. If Mr. de Valera's Bill should pass through its remaining stages into law, it

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would obviously be impossible for the British Government to enter into any new agreement with a Government in Ireland which has so deliberately broken an existing one. Thus, as Mr. Thomas has indicated, no further agreements can be made at Ottawa, nor can there be an agreement for the renewal of the preference given to the Free State under the Import Duties Act when that preference expires in November, while an agreement so fundamental as the Treaty is deliberately repudiated.

The retention by Mr. de Valera of the Land Annuities is a different matter. It too arises out of the Anglo-Irish settlement, but it raises no vital constitutional question, and although Mr. de Valera's attitude was unbending at first, he appears to have adopted a more reasonable one since Mr. Thomas's letter of April 9. From his statement indeed one gathers that he had never seen the 1923 and 1926 agreements, signed by members of the British and Free State Governments; these make it clear that the annuities are to be collected by the Free State and handed over to the British Government, which has to pay the interest on the stock representing the original loans by means of which the tenants were enabled to purchase their farms. Mr. de Valera has now told a representative of the Associated Press that "the whole question is to be re-examined in view of the agreement between the British Government and the Irish Free State Government dated 1923, and brought to light by Mr. Thomas."* In the event of reconsideration failing to convince Mr. de Valera, although we consider that the British case is beyond dispute, our Government should, we think, be prepared to submit this particular question to arbitration under the scheme adopted by the last Imperial Conference for settling differences between members of the British Commonwealth.†

* See *The Irish Press* of May 2, 1932.

† See the official summary of the proceedings of the Imperial Conference 1930.

IRELAND AND THE TREATY

I. THE RESULT OF THE ELECTION

ALTHOUGH the result of the Free State election undoubtedly surprised the outside world, it was not unexpected by close observers of Irish politics.* The fact that Mr. Cosgrave's Government was the oldest in Europe was perhaps its greatest handicap. Few administrations can hope to survive the accumulation of dislike engendered by ten years of resolute and impartial government, particularly in a country like Ireland, where envy and hatred of those in office or authority are peculiarly prevalent. Moreover, the Government itself did not act with much tact, and justified the humorous comment of a friendly cynic, that it contained several statesmen but only one politician, namely, Mr. Cosgrave himself. Just before the election it announced its intention of making substantial reductions in the salaries of the primary school teachers and the Civic Guards, which these influential bodies, with representatives scattered all over the country, naturally resented. It committed another and more serious blunder by launching at the same time a State prosecution for seditious libel before the Military Tribunal, set up under the Public Safety Act, against Mr. de Valera's newly established paper, *The Irish Press*, and its editor, Mr. Frank Gallagher. The charge arose out of the publication of articles and statements alleging ill-treatment of political prisoners by the Civic Guards in western Ireland. The hearing occupied eleven days, and over fifty witnesses were examined. Such a case naturally presented a splendid opportunity for pleading justification of the statements

* See *THE ROUND TABLE*, No. 86, March 1932, p. 374.

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published, and gave Mr. de Valera's party a fine opening for political propaganda, of which it fully availed itself. In the result, although the defendants were fined £100 each, the evidence justified the editor's action and discredited the C.I.D. department and its head. In any event ordinary common sense ought to have indicated to the Ministry that the eve of a general election was not the time to embark on what might certainly be described as an attempt to stifle public criticism of their police activities.

But, quite apart from these blunders, the election results clearly indicate that the people as a whole desired a change of Government, and would, in any event, have ensured it by their votes. The first preference votes were as follows: Fianna Fail, 566,325; Cumann na nGaedheal, 449,779; Independents, 124,513; Labour, 98,263; Farmers, 34,989. The result of an election under universal suffrage may justly be described as a verdict based on the collective wisdom of the ignorant, and this election is no exception to this definition. In effect, the people desired to get rid of the Cosgrave Government and to give Mr. de Valera a chance of governing, but under severe limitations as regards power and policy. Remembering that the Labour party is essentially pro-Treaty, though anti-Cosgrave, the first preference votes seem to show a majority of 55,571 votes against the Cosgrave party, and a majority of 41,219 votes against a policy designed to break the Treaty. The following table shows the results of the five general elections which have taken place since the establishment of the Free State, and the steady increase of Mr. de Valera's party vote:

	Fianna Fail	Cumann na nGaedheal	Labour	Farmers	Independents
1922	36	58	17	7	14
1923	44	63	14	15	21
1927 (June)	51	46	22	11	15
1927 (Sept.)	57	61	13	6	13
1932	72	56	7	4	

The Result of the Election

It will be seen from the above that the present Fianna Fail party is the biggest single party ever elected to the Dail. It also shows that both Labour and the Farmers' parties have lost seats progressively to the larger parties, and even the Independents are now much diminished in numbers. As Labour now supports Fianna Fail, and the Farmers and Independents in effect support Cumann na nGaedheal, the effective state of the parties is roughly as follows : Fianna Fail, or de Valera bloc, 79 ; Cumann na nGaedheal, or Cosgrave bloc, 73. These figures are not quite exact, because a couple of the Independents have at the moment given conditional support to Mr. de Valera, and two of Mr. Cosgrave's party have died since the election. The total number of votes polled in the election was 1,274,156, being 104,000 more than the previous highest poll in 1927. This increase was characteristic of every constituency except Clare, Mr. de Valera's own seat, and proves that a genuine public interest was taken in the result. The Fianna Fail party headed the poll in twenty-one out of the twenty-nine constituencies into which the country is divided, and there can be little doubt that but for the proportional representation system of voting its gains would have been far greater. One fancies that the members of the late Government, who advocated the abolition of P.R., have now changed their minds. Apart from Dublin University (Trinity College) there were no uncontested seats. The percentage of spoiled votes was negligible. Fianna Fail secured a member for every 7,900 votes polled, and Cumann na nGaedheal one for every 8,040 votes polled, proving that P.R. gives a result in which there is a close approximation in the values of the votes cast for the two main parties. With the exception of Mr. T. J. O'Connell, the leader of the Labour party, all the party leaders were elected, including every member of Mr. Cosgrave's Cabinet. But no party secured a clear majority of votes or seats.

The election was conducted throughout in a serious and

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orderly manner, and there was an entire absence of disturbance or intimidation on February 16, when the polling took place. The only tragic incident, which had no political significance, was the shooting of Mr. Patrick Reynolds, a member of the last Dail and a Cumann na nGaedheal candidate in the election, and the detective officer who accompanied him, by a police pensioner with whom Mr. Reynolds had had a private altercation at the latter's house. This event, which took place on February 14, after the nominations were complete, necessitated the postponement of the election in the Sligo-Leitrim constituency, where Reynolds was a candidate, and the meeting of the new Dail had to be altered from March 2 to March 9, in order to permit this election to take place.

During the election Mr. Cosgrave and Mr. de Valera made whirlwind tours of the country, assisted by the motor car and loud speaker. The publicity campaign of the Cosgrave party was better managed than that of their opponents, and was concentrated principally on large advertisements in the Irish papers which gave in graphic and condensed form the record of the Cosgrave Government and their rivals. The most effective and pithy poster was that entitled "His Master's Voice," which represented Mr. de Valera walking forward with an armed gunman holding a revolver to his back, and the most amusing a circus playbill headed "Devvy's Circus: Absolutely the greatest road show in Ireland to-day," and featuring Mr. de Valera as "The world-famous Illusionist, Oath-Swaller and Escapologist. See his renowned act escaping from the strait jacket of the Republic."

One of the planks in Mr. de Valera's programme is a pledge to revise all army pensions that have not been granted for disability. There are about 3,000 of these pensioners, whose pensions total about £150,000 per annum, and on February 26 Mr. de Valera's paper, *The Irish Press*, referred to a rumour that two members of Mr. Cosgrave's Cabinet were plotting with these per-

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sioners to bring about a *coup d'état*. This suggestion was immediately described by Mr. Cosgrave as "grotesquely untrue" and only to be explained "by a disordered imagination or a guilty political conscience." In a further statement issued on the eve of his leaving office Mr. Cosgrave admitted that the verdict of the electors meant that Fianna Fail should get an opportunity of trying out their policy, and accordingly the machinery of State, adequate in every part, would be handed over to them. He added that the difficulties which would confront the new administration were mainly of their own making, a fact which would become increasingly manifest even to them. While, however, the new Opposition would not deny them any reasonable facilities, it would not shirk its duty as a parliamentary Opposition by being a consenting party in discrediting the national honour, nor look silently on while the country's economic problems, in a period of world-wide depression, were being made the sport of politics, and its resources frittered away upon unsound and fantastic schemes. Their efforts in Opposition would be directed to the ends they had steadily pursued during the last ten years—the establishment and the maintenance of national dignity, national prosperity, and national good faith.

II. THE NEW GOVERNMENT AND ITS POLICY

As a prelude to the discussion of the present political situation in the Free State, it is desirable to state briefly the aims and policies of the various parties. Fianna Fail, or the moderate republican party, led by Mr. de Valera, aims eventually at complete separation from Great Britain and the establishment of an independent republic, but it is content to achieve this object by easy stages and by democratic methods. For the moment it claims only a limited mandate within the scope of its election programme, namely, to abolish the oath of allegiance and retain the

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land annuities.* Its economic programme aims at effective protection for all Irish goods manufactured in Ireland, the decrease of unemployment, and the decentralisation of industry.† Cumann na nGaedheal, or the constructive nationalist party, led by Mr. Cosgrave, stands for the maintenance of friendly relations with England, the observance of the Treaty of 1921, the co-equality of all States in the British Commonwealth, and, above all, for the enforcement of the people's democratic decisions. Its economic policy may be described as one of scientific protection for suitable industries and the full development of our agricultural industry by improving its standards and output. The Labour party is principally interested in schemes for the provision of employment, the increase of old age pensions, and other measures of social reform, and is only remotely concerned with such questions as the oath of allegiance, which it does not regard as of vital importance. The small Farmers' party, hitherto attached to Cumann na nGaedheal, is purely interested in agricultural matters, and is likely to vote as the interests of its followers dictate. The Independents are a heterogeneous group without any definite leadership or policy, but chiefly representative of the business interests, the Protestant minority, and the old Unionist party. They include the members representing Trinity College, and their general tendency is to support a conservative policy, and to uphold the Treaty. Outside the Dail, and refusing to take part in its proceedings, is the extreme republican party, which may be divided into two parts, political and military. The political wing is represented by Sinn Fein, an organisation largely controlled by Miss Mary MacSwiney, which believes that the government of the country is still vested in the members of the Second Dail; and the military wing by the Irish Republican Army, or I.R.A., composed of the younger men who do not necessarily

* See THE ROUND TABLE, No. 74, March, 1929, p. 379 *et seq.*, and No. 83, September, 1930, p. 820.

† See the Appendix.

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sarily follow or obey the political wing. The I.R.A. has, in the eastern portion of the country, a distinctly Communist tinge, and Saor Eire, one of its satellite bodies, is definitely of that colour. All these extreme republican parties stand for the immediate establishment—if necessary by force of arms—of an All-Ireland republic, embracing not only the Free State but Northern Ireland, and the complete denunciation of the Treaty and abolition of the Free State Constitution. It is somewhat ironical to reflect that their policy is derived, through the abstract principles of the French Revolution, from the writings of the English political philosopher Locke, who was the English champion of the Orange cause, rather than from Irishmen like Swift or Burke. But the fact that the ghosts of Emmet and Wolfe Tone, who first advocated these theories, still confront one at every political corner in Ireland cannot be denied and must not be overlooked by anyone who wishes to understand the mentality of our political extremists.

The first step of the new Dail, when it met on March 9, was to elect as Speaker Mr. Frank Fahy, a Fianna Fail deputy from Galway, in place of Mr. Michael Hayes, the Speaker in the last Dail. Mr. Hayes was beaten by only two votes, as many members apparently felt that it would have been better to preserve continuity in such an office. Mr. de Valera was then elected President of the Executive Council by a majority of 13 votes, and, after obtaining the formal sanction of the Governor-General, who attended at Leinster House for this purpose, he announced that the new Executive Council would be composed as follows :

President, and Minister for External Affairs, Mr. Eamon de Valera ; Vice-President, and Minister for Local Government, Mr. Sean T. O'Kelly ; Minister for Lands and Fisheries, Mr. P. J. Rutledge ; Minister for Industry and Commerce, Mr. Sean Lemass ; Minister for Finance, Mr. Sean McEntee ; Minister for Agriculture, Dr. James Ryan ; Minister for Defence, Mr. Frank Aiken ; Minister for Justice, Mr. James Geoghegan, K.C. ; Minister for Education, Mr. T. Derrig ; Minister for Posts and Telegraphs, Senator Connolly.

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The names of the new Ministry were approved by the Dail without a division. Like Mr. Cosgrave's Government, the new Executive Council is on the whole composed of young men. Its leader, Mr. de Valera, is just fifty, having been born in New York of a foreign father and an Irish mother in the year 1882. He spent his childhood in County Limerick, and was educated in Dublin, where he took his university degrees, and became a teacher of mathematics. He took part in the Rebellion of 1916 and was sentenced to death, but this was commuted to penal servitude for life, and he was subsequently released in June 1917, whereupon he was at once elected M.P. for East Clare as a republican candidate. He helped to organise the Sinn Fein movement, and was elected its president in October 1917. When Dail Eireann was brought into being on the secession from the British Parliament after the general election of 1918, he was elected President of the Republican Government. Subsequently he went to the United States to seek recognition and funds for the Irish movement. In November 1920 he returned to Ireland, and in 1921 took part in the negotiations which led up to the Treaty. He refused to go to London for the final negotiations, and eventually repudiated the agreement arrived at there. His weak attitude at this time was generally believed to be chiefly responsible for the disunion and civil war which ensued, as without him the extreme element would not have been able to obtain any serious public support. He took part in the civil war, but as a follower rather than a leader, and subsequently emerged to found the Fianna Fail party in 1926 and to enter the Dail as its leader in 1927. Mr. Sean T. O'Kelly was one of the early members of the Sinn Fein group in the Dublin Corporation, where, like Mr. Cosgrave, he served his apprenticeship to public affairs. He also represented the Sinn Fein party in Paris, and was the leader of the delegation that sought to place the Irish case before President Wilson during the Peace Conference. Mr. P. J. Rutledge

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is a solicitor from the west of Ireland who took an active part in the civil war. Mr. McEntee is an engineer and a patent agent who also took part in the rising of 1916. So did Mr. Lemass, who was then only 17, and who is regarded as the coming man of the Fianna Fail party. He is a clear speaker, and is reputed to be reasonable in his views. Dr. James Ryan is a doctor with agricultural tastes like many of his confrères in the Free State. Mr. Frank Aiken was a prominent republican leader in the Anglo-Irish struggle and the civil war; in his new post as Minister for Defence he commands some of his former opponents. Mr. Derrig was also a prominent fighter in the civil war, and is a teacher by profession. Mr. James Geoghegan, K.C., never took any part in politics until he emerged from the Law Library to contest Longford-Westmeath in 1930 as a Fianna Fail candidate.

It is not surprising that the first act of the new Government, composed as it is largely of ex-political prisoners and fighting men, was to release immediately all the militant republicans who had been sentenced by the Military Tribunal, and its second to suspend the operation of the Public Safety Act, thus automatically abolishing the Military Tribunal and removing the ban imposed on the I.R.A. and kindred organisations. The release of the prisoners was celebrated by immediate demonstrations in Dublin and by parades of the I.R.A. throughout the country on Easter Sunday in celebration of the 1916 Rebellion. At these gatherings the speakers were careful to emphasise the fact that in spite of such concessions the I.R.A. must continue its work and would not rest until it had achieved its final object, the restoration of an All-Ireland republic. At the military parades on Easter Sunday it was noticeable that the demonstrators did not carry arms, and that no volleys were fired over the graves of the dead republicans where the demonstrations ended. No member of Mr. de Valera's Government took part in these processions, and the Free State army was confined to barracks in order to avoid any

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chance of friction. It is well to remember that the I.R.A. was definitely condemned last October by the Catholic Hierarchy as "a sinful and irreligious organisation" of which no Catholic can lawfully be a member, and several of the I.R.A. speakers attacked the bishops in their public addresses. It is believed that Mr. de Valera has privately endeavoured to persuade the I.R.A. to moderate their irreconcilable attitude, but they are not likely to be satisfied with any concessions he can offer. He believes that once the oath of allegiance is removed from the constitution the extreme elements will recognise the Government and enter the Dail; but the Sinn Fein party, in a public statement issued immediately after the election, informed him that he "and the other prospective Ministers of His Majesty, George V, may remove as many oaths and tests as they wish, but they will never induce republican Ireland to accept the shameful position of surrender and subservience represented by membership of the Free State Parliament, which is not Dail Eireann," and they go on rather cruelly to state that their attitude cannot be better given than in the words spoken by Mr. de Valera himself at Tralee as recently as August 16, 1925, when he said :

If we were to take the advice which some people have offered us, to admit defeat and consent to take our places in the twenty-six-county Parliament, what would happen is that we would have added our strength to the strength of those who accepted the Treaty in pulling away the people from their national ideals. Our business is to stand fast and firm, and fast and firm we will stand, even if we are reduced to the last man.

It is the recollection of statements such as this that explains Mr. de Valera's fervent anxiety to abolish the oath, which is in effect the permanent evidence of his own degradation in republican eyes. But if it is impossible for Mr. de Valera to satisfy the extreme republicans, it is equally impossible for him to satisfy the Labour party, on whose support his parliamentary position rests, because they have already announced that they will only support

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him as long as his Government carries out a Labour programme, involving the expenditure of large sums on unemployment grants, old age pensions, housing, and social legislation, and does not subordinate these to political aims.* The Labour party state that they will continue their opposition to the oath of allegiance, but as they have taken it without protest for ten years, and as it was not even mentioned in their political programme, it is difficult to understand what this statement means. One of their members, Mr. P. Hogan, T.D., has been elected Deputy Speaker of the Dail.

Immediately the election results indicated the certainty of Mr. de Valera's election, he began to make statements and give interviews to the press on the subject of his policy. He stated that to get rid of the oath of allegiance they had only to eliminate it from the constitution, as it was not made obligatory by the Treaty, and that England had no right to interfere. They also intended to retain the land annuities, to which, he said, England had no legal claim. These statements were accompanied by protestations of friendly feelings towards England, and willingness to negotiate trade agreements with her. The words of the Treaty concerning the oath are contained in Article 4, and are as follows :

The oath to be taken by members of the Parliament of the Irish Free State shall be in the following form : I . . . do solemnly swear true faith and allegiance to the Constitution of the Irish Free State as by law established and that I will be faithful to His Majesty King George V, his heirs and successors by law, in virtue of the common citizenship of Ireland with Great Britain and her adherence to and membership of the group of nations forming the British Commonwealth of Nations.

Having regard to these definite words it is difficult to understand how an intelligent person like Senator W. B. Yeats, who must be presumed to have read the Treaty, could make the statement that it omits to state that any person

* See the Appendix.

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must take the oath. The three preceding Articles provide that the law and constitutional usage of the Dominion of Canada governing the relationship of the Crown shall apply to the Irish Free State. Article 17 of the Free State Constitution, after stating that the oath in the above form shall be taken by every member of the Oireachtas (*i.e.*, the King, the Dail, and the Senate), goes on to provide that "such oath shall be taken and subscribed by every member of the Oireachtas before taking his seat therein before the Representative of the Crown or some person authorised by him," and it is this article which Mr. de Valera proposes to remove from the constitution, which removal he apparently maintains does not occasion a breach of the Treaty. It is strange that he should discover that the oath on account of which he helped to plunge the country into civil war, and which he afterwards stated was an "empty formula," is not mandatory having regard to the Articles above cited. His contention would seem to be that the Treaty should have provided that the oath must be taken by members of the Dail and Senate and that the existing words give them the option of taking no oath at all.

When the Dail resumed its sittings on March 15 Mr. de Valera stated that the Government intended to remove the oath from the constitution, and the moment that that was done he believed there would be no excuse for any citizen to refuse to give willing obedience to the law instead of coercion, but he went on to say that they stood for "one Government and one army." The frightful things that were supposed to happen the moment a Fianna Fail Government came into power had not taken place and the peaceful change of Government had been a wonderful thing for the country. He might have added with truth that this peaceful change would have been impossible but for Mr. Cosgrave's work during the last ten years. The contention of Mr. de Valera's Government as regards the land annuities is in effect that they are not legally due to Great Britain, since under the Government of Ireland Act 1920 they were

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to be retained by Southern Ireland, and are in fact now retained by Northern Ireland under the same Act. They refuse to recognise the financial settlement of 1926 between the Free State and Great Britain on the ground that this arrangement was arrived at only between the respective Governments and was never ratified by the Free State or English Parliaments. In this opinion they are supported by a number of learned lawyers to whom they submitted the matter, although a number of equally learned lawyers advised Mr. Cosgrave's Government to the opposite effect. These land annuities are annual payments made by the Irish farmers in order to repay the sums lent to them for the purchase of their land. The money is collected from the farmers by the Free State Government, and, as regards the land purchased before the Treaty, is paid over to the British National Debt Commissioners to meet the service of the loans raised for that purpose. The figure involved is about £3,000,000 a year and the sum still to be met about £76,000,000. This sum Mr. de Valera proposes to apply to finance a scheme of derating designed to assist the small and productive farmers. It may be asked why he does not propose to remit these payments altogether, as indeed the extreme republicans have already promised to do. The reason why he cannot take this far more attractive course is because he must continue to collect the annuities on the large amount of land purchased compulsorily since the Treaty under the Act of 1923, since the Free State exchequer itself must finance this transaction, which has been carried through by the issue of land stock instead of the payment of cash to the landlords. It is obvious that the Land Commission could not remit the annuities of the tenants who purchased before the Treaty of 1921 and collect those of the tenants who purchased since the Treaty without creating an impossible situation. It is difficult, however, to see what legal claim the Free State Government has to collect and retain the annuities on the land purchased before 1921 if they are not applied in

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discharge of the original debt, and this view is evidently shared by the farmers themselves, because the number of defaulters has increased materially during the last few months, and is likely to increase further in the near future. If the annuities are not paid, the central government deducts the arrears from the grants in aid of local taxation, and so the ordinary ratepayer has to bear the loss, a process which cannot be continued indefinitely, and which may easily lead to a general strike against local taxation.

III. THE BRITISH GOVERNMENT'S INTERVENTION

NATURALLY the British Government could not continue to maintain silence whilst Mr. de Valera imparted his proposals to every foreign press correspondent and broadcast them to America, and little surprise was felt when Mr. Neville Chamberlain, in a speech on March 18, stated that any suggestion that obligations or agreements solemnly entered into by the two countries, could be repudiated or varied by either side as though it concerned that side alone would cause the British Government the gravest concern, and, if seriously pursued, would undoubtedly revive bitterness and differences which it was hoped had been removed for ever. Subsequently on March 22, owing to an inquiry received from Mr. J. H. Thomas, the Secretary of the Dominions, a statement of the intention of the Irish Free State Government with regard to the oath was issued by Mr. J. W. Dulany, the High Commissioner for the Irish Free State, in London.

The Irish Free State Government (this statement declared) held that the oath was not mandatory in the Treaty, and that they had an absolute right to modify the constitution as the people desired. Furthermore, it was their view that, the constitution being the people's constitution, anything affecting it belonged to internal sovereignty, and was a purely domestic matter. But, besides these legal and constitutional considerations, there was another that paramount consideration more than sufficient in itself to make the Government's decision final and irrevocable. The people had

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declared their will without ambiguity. The abolition of the oath was the principal and paramount issue before the electors. The oath had been the cause of all the strife and dissension in the Irish Free State since the signing of the Treaty. The people, and not merely those who supported the present Government, regarded it as an intolerable burden, a relic of medievalism, a test imposed from outside under threat of immediate and terrible war. The new Government had no desire whatever to be on unfriendly relations with Great Britain—quite the contrary. But the British Government must realise that real peace in Ireland was impossible so long as the full and free representation of the people in their Parliament was rendered impossible by a test of this character.

On the same day, speaking in the Free State Senate, Mr. de Valera reiterated his intention to remove the oath and retain the land annuities, but laid stress on the fact that his Government desired to remain on the friendliest possible terms with Great Britain. His claim to have a mandate to do these things was strongly disputed by Senator Milroy, one of Mr. Cosgrave's party, and the figures already quoted in this article show that no real decision on these questions was given at the election. In fact, the new Dail contains a clear majority, and the Senate a majority of at least two-thirds, for the Treaty, although the Labour party is supporting Mr. de Valera in his proposal to abolish the oath, believing that it can be done with impunity.

On March 23 Mr. Thomas, on behalf of the British Government, addressed a note to Mr. de Valera in which he stated that in the opinion of his Government it was manifest that the oath was an integral part of the Treaty made ten years ago between the two countries, and hitherto honourably observed on both sides. As regards the land annuities the view of his Government was that the Free State Government were bound by the most formal and explicit undertaking to continue to pay these annuities to the National Debt Commissioners and the failure to do so would be a manifest violation of an engagement which was binding in law and in honour on the Irish Free State, whatever administration might be in power, in exactly the same way as the Treaty itself was binding on both countries.

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On April 5 Mr. de Valera, replying on behalf of the Free State Government, stated that whether the oath was or was not "an integral part of the Treaty made ten years ago" was not now the issue. The real issue was that the oath was an intolerable burden to the people of the Free State and that they had declared in the most formal manner that they desired its instant removal. The agreement of 1921 gave effect to what was the will of the British Government. It was directly opposed to the will of the Irish people, and was submitted to by them only under the threat of immediate and terrible war. For Ireland it has meant the consummation of the outrage of partition, and the alienation of the most sacred part of our national territory with all the cultural and material loss that the unnatural separation entailed. British maintenance parties were still in occupation of some of our principal ports, our coastal defence was still retained in British hands, and Britain claimed the right, in times of war or strained relations with a foreign Power, to make demands upon Ireland which, if granted, would make our right to neutrality a mockery. After further references to the results of the Treaty, Mr. de Valera proceeded to state that his Government must maintain that the elimination of the oath was purely domestic concern and necessary for the peace, order and good government of the State. The competence of the Free State legislature to pass such a measure was not open to question, and had been expressly recognised by the British legislature itself. With regard to the annuities his Government desired to know what was the formal and explicit undertaking to continue to pay the sums mentioned in the British note. In conclusion, Mr. de Valera expressed the opinion that friendly relations between the peoples of their respective countries could not be established on pretence but only on the solid foundation of mutual respect and common interests, and that would long ago have been thus established had the forces that tended to bring us together not been interfered with.

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by the attempts of one country to dominate the other. In a further note, dated April 9, Mr. Thomas, on behalf of the British Government, pointed out that the views expressed in Mr. de Valera's despatch went far beyond the issue originally raised and made it clear that the repudiation of the whole settlement of 1921 was involved. The British Government had entered into that settlement with the single desire that it should end the long period of bitterness between the two countries, and it was their belief that it had brought a measure of peace and contentment that would not have been reached by any other means. Further, as the direct result of that settlement, the Irish Free State had participated in, and contributed to, the notable constitutional developments of the last few years, whereby the position of the Dominions as equal members with the United Kingdom of the British Commonwealth of Nations, under the Crown, had been defined and made clear to the world. It was true that the 1921 settlement did not result in the establishment of a united Ireland, but the Treaty itself made the necessary provision for the union at that time of the two parts of Ireland, if both had been ready to accept it. As to the future, there could be no conceivable hope for the establishment of a united Ireland except on the basis that its allegiance to the Crown and its membership of the British Commonwealth continued unimpaired. The British Government stood absolutely by the Treaty. With regard to the land annuities, whose origin and nature he described, he stated that the formal and explicit undertakings referred to by the British Government were contained in the Financial Agreement of February 12, 1923 and the Ultimate Financial Settlement of March 19, 1926, under which the Free State Government undertook to pay to the British Government at agreed intervals the full amount of the annuities accruing due from time to time under the Irish Land Acts 1891-1909. In conclusion, Mr. Thomas pointed out that, whilst it is the sincere hope and desire of the British Government that

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friendly relations should continue between the peoples of the United Kingdom and the Free State, those relations cannot but be impaired by any failure in the complete fulfilment of obligations deliberately undertaken.

Speaking at Ennis on April 10, Mr. de Valera said that the people had emphatically declared their will to abolish the oath of allegiance to the British Crown as the first step in the new march to independence and unity. It was a purely domestic matter in which they could not tolerate interference. They were eager to establish relations of real friendship with the British people, but they must be relations of complete equality. Great Britain had formally abjured the claim that she so long unjustly made to have any voice whatever in their domestic concerns. The fault would be theirs if they submitted to anything that would mean the revival of that claim. Their national honour was at stake in this matter. Ireland was not a British colony. It was one of the oldest nations in the world with all the rights of nationhood. Unlike the British Dominions, they could not admit, and had never freely admitted, that their right to sovereign independence was derived from a British Statute. The frank and final acknowledgment of that right was the one basis upon which real and permanent agreement between the two countries could be secured.

It is obvious from these statements that Mr. de Valera's mind has, for all practical purposes, not advanced beyond the year 1921, and that he is still thinking in terms of the Treaty discussions and the atmosphere which then existed. The position of equality which he demands has been already achieved, as the British Government points out. The oath in itself is now really only the symbol of Commonwealth unity, and as such can of course be abolished, but its abolition seems undoubtedly to involve a denunciation of the entire Anglo-Irish Treaty, of which it is an integral part. Mr. de Valera also seems to be ignorant of the fact that no British Government will ever again raise a finger to coerce Ireland, and that when he seeks to abolish the

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oath he is only engaged in a sham fight. But it seems also certain that the Free State cannot leave the British Commonwealth politically, and remain in it economically. It might be more honest for Mr. de Valera definitely to proclaim his Government's intention to secede from the British Commonwealth, instead of waiting to be pushed into that decision by the I.R.A. or the force of events. If his Government feel that they have no mandate for taking that course, as in truth they have not, let them definitely consult the people of the Free State, by referendum or otherwise, on the issue of secession. Such a decision, which, at least if carried out without extremist intimidation, could not be said to be taken under the threat of "immediate and terrible war," might perhaps be treated as decisive for this generation, and we could then hope to escape at last from the anti-English complex which still apparently dominates our national mentality. The present situation is bad for us and bad for England too, but it cannot be cured by the abolition of the oath or the non-payment of the land annuities. That the questions at issue have caused anxiety not only to England and Ireland but also to the other States of the Commonwealth was made clear by the messages sent to Mr. de Valera early in April by the Prime Ministers of South Africa, Australia and New Zealand respectively, expressing grave concern at the developments that have taken place in Anglo-Irish relations, and hoping that a satisfactory solution may be found. Mr. de Valera's replies record appreciation of these friendly communications and reiterate the points made in his communications to the British Government. In considering Commonwealth relations it must not, however, be forgotten that the position of Ireland, as a parent nation, is fundamentally different from that of the other Dominions, and that we have a long and unbroken national existence which they cannot claim. On the other hand, we should not forget that the Irish people have played a great and important part in their development. The attitude of

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Mr. Cosgrave and his party was made clear at a meeting in Dublin on April 5, when a resolution was passed unanimously pointing out the achievement of the Cosgrave Government, and adding that the only limitation or qualification on Irish independence now existing was the political division of the country. The party recorded its vigorous opposition to any policy, which, by depriving the Free State of the advantages it possessed as a member of the British Commonwealth of Nations, would not only endanger it economically, but would destroy the hope of national reunion, and also to any policy which would endanger the Treaty, since such a policy would lessen the security afforded to the people by that settlement, would lower the repute of the State, and would greatly reduce the power to negotiate international agreements satisfactorily in the future with Great Britain or any other State.

Mr. Cosgrave's party have suffered a serious loss through the tragic death of Captain William Redmond, D.S.O., the only son of the late John Redmond, who threw in his lot with them during the election. Although, like the sons of most great men, he had not his father's ability, and although he was handicapped both by bad health and by the destruction of the Irish party and its policy by the Sinn Fein movement, he nevertheless served his country unselfishly and maintained the noble traditions of his name. He was a fine speaker, and served with distinction in the great war. Had Mr. Cosgrave been returned to office, it is almost certain that Captain Redmond would have been given a place in the Government. If he had supported instead of opposing, Mr. Cosgrave in June, 1927, when he led a party of eight members, his political career might have been very different, but unfortunately he missed the opportunity to consolidate moderate nationalist opinion which then presented itself and did not recur.

The Removal of the Oath

IV. THE REMOVAL OF THE OATH

WHEN the Dail reassembled on April 20 after a few weeks' adjournment, the Government's first step, in accordance with Mr. de Valera's oft-repeated pledges, was to introduce the Bill for the removal of the oath of allegiance from the constitution. The text of the Bill revealed the legal difficulties inherent in Mr. de Valera's programme, because not only does it amend the constitution by the deletion of Article 17 which prescribes the oath, but it also deletes the words in Article 50 which provide that amendments to the constitution must be within the terms of the Treaty, and Section 2 of the Constitution Act itself, which provides that the constitution shall be construed with reference to the Articles of Agreement for the Treaty, which are thereby given the force of law, and that any provision in the constitution or any amendment thereof, or law made thereunder, which is repugnant to the Treaty, shall be void and inoperative. The necessity for these consequential amendments would seem to prove that Mr. de Valera's view that the abolition of the oath does not infringe the Treaty agreement is not shared by his legal advisers. The formal introduction of the measure was enlivened by a candid and courageous speech from Mr. F. McDermott, a young Independent deputy for Roscommon belonging to an old Irish family, who declared that the fundamental question was: did they or did they not regard themselves as members of the British Commonwealth of Nations? In either case the present Bill was wrong. On the assumption that the Free State did consider itself a member of the partnership, the Bill was a breach of international good manners—apart altogether from the question of good faith. If the Free State did not consider itself a member of the Commonwealth the Bill was totally inadequate to make the position

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clear to the Irish people or to the world at large. It contained ambiguities which would be extremely bad for the reputation of the country abroad, and would be dangerous from the point of view of internal peace. If they did not wish to remain in the Commonwealth let them go out of it like men. "We are an ancient race with noble traditions," said Mr. MacDermott. "Do not let us behave like gutter-snipes." If the Bill was passed, he declared, he would introduce a Bill requesting the Government to take immediate steps to remove the Free State from the British Commonwealth.

The second reading debate began with an unexpected and significant prelude. Mr. de Valera's motion to take the entire time of the House for the Bill was objected to by Mr. Morrissey, an Independent deputy, whose resolution dealing with the urgency of the unemployment problem was on the order paper. He challenged a division, which resulted in a defeat for the Government by a majority of eight votes, a result which proves that the Labour members, who voted with Mr. Morrissey, consider that steps to remove unemployment are more important than the abolition of the oath. The speeches made during the debate were on familiar lines. Mr. de Valera argued that his proposal was in no way a violation of the terms of the Treaty, and that, as the Free State was admittedly one of the co-equal partners of the British Commonwealth, the Oireachtas were entitled to remove the oath without the concurrence of any other authority. He would not therefore be drawn into negotiations on the matter. The moment the people were ready to stand for an independent republic the Government would be ready to lead them. Mr. Cosgrave moved as an amendment that,

believing that the rights and liberties and the economic freedom and privileges assured to the people by the Treaty of 1921 are placed in jeopardy by the Bill, the Dail declines to give it a second reading pending negotiations between the Executive Council and the British Government on the question at issue.

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He described the Bill as one of the greatest pieces of political chicanery in history, and argued that purely legal action of a unilateral character in respect of an international instrument would not commend itself to the representatives of any other nation. The Bill did affect the Treaty—an instrument alterable only by mutual agreement between the parties to it. Although many members of the Opposition had no liking for the oath, they disliked equally the manner in which it was sought to have it removed. One of the best speeches during the debate was made by Professor O'Sullivan, Minister for Education in the Cosgrave Government, who said that it was not because the Bill amended the constitution that it was opposed, but because it repudiated the Treaty. If England had attempted anything even approaching the present Bill within the last ten years they knew what the attitude of every party in the country would be. They had always denied England's right to interfere with the Treaty. Were they going to claim the right to change and repudiate it? Why, he asked, was it that the interests of the majority in the country must be always sacrificed to the determination of a small minority that was not even represented by the Government party? Mr. Dan Breen enlivened the proceedings by stating that, as one of those who went out to kill Lord French, as the King's representative, in 1919, he made no apology, and would do the same, if the occasion arose, to-morrow.

The Bill finally passed its second reading on April 30 by a majority of six votes, and will no doubt pass the remaining stages in the Dail. It must then go to the Senate, which, under the constitution, has the power to reject it, but such action would only delay its passage for eighteen months, unless Mr. de Valera went at once to the country, as he would certainly do, and was returned again to office, in which event the Bill could be passed within sixty days. There are sixty members in the Senate, of whom at least two-thirds are definitely opposed to

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Mr. de Valera's policy, but it may be doubted whether they will have sufficient courage to reject the Bill, and even if they have the courage it may also be doubted whether it would be the best tactics to do so. They may legitimately take the attitude that as the Dail, directly elected by the people, has chosen to pass the Bill they can take the consequences, and so leave Mr. de Valera in his present uncomfortable position. Certainly if he was returned to power as the result of a fresh election he would immediately, as his newspaper has not obscurely hinted, take steps to abolish the Senate, which he has always denounced as an undemocratic and useless body.

If then and when the Bill finally passes what will be the position of the Irish Free State? Upon the answer to this question will depend the future of Mr. de Valera's Government. If the British Government confines itself to the polite protests already made and does not treat the abolition of the oath as implying the Free State's resignation from the rights and advantages of membership of the British Commonwealth, then Mr. de Valera's position will undoubtedly be strengthened and he will proceed to another election in which the issue will be the entire revision of the constitution. His followers boast that if he is then returned with an independent majority he will make short work of the I.R.A., if it ventures to challenge his authority. In such an event there would seem to be little doubt that Mr. de Valera could count on several years of office. He might even be able to forget the Treaty, and would undoubtedly seek to establish profitable economic relations with Great Britain.* It is quite certain that if he succeeds in abolishing the oath with impunity Mr. Cosgrave's party will suffer virtual extinction, at least for the time being. If, on the other hand, the British Government faces the issue at once and treats the abolition of the oath as a definite repudiation of the

* See the Appendix for the economic position as between Great Britain and the Irish Free State.

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Treaty and a deliberate step towards secession, with all the political and economic consequences that must follow therefrom, the de Valera Government will be compelled to explain the result to the angry people of the Free State, who will, in that event, have occasion to remember the unpleasant and generally forgotten fact that history always repeats itself.

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APPENDIX

The Economic Position

The principal facts concerning trade relations of the Free State with Great Britain were given by Mr. William Peters, the English Trade Commissioner, in an address delivered in Dublin on March 7. He pointed out that in 1931 the total external trade turnover of the Free State amounted to about £88,000,000. Exports accounted for £37,000,000 and imports for £51,000,000. Less than £1,000,000 worth of goods were re-exported, the £36,000,000 odd remaining represented Free State goods, and of this sum exports to the United Kingdom accounted for £35,000,000, exports to all other countries little over £1,000,000. After allowing for re-exports, the actual value of United Kingdom goods sold to the Free State in 1931 was £32,000,000. In other words the sales of Free State goods in the United Kingdom exceeded by several million pounds per annum the sales of United Kingdom goods in the Free State. This was the case not only in 1931 but for all the preceding years. The trade in live stock between the Free State and the United Kingdom was the largest of its kind in the world. On the average each agricultural holding in the Free State sends every year something like two head of cattle, three head of sheep and pigs, and three head of poultry to the United Kingdom. This represents £12 per head of the population, or £60 for the average family of five persons. The Free State does 96 per cent. of its total export trade with the United Kingdom, but the slightly smaller exports of United Kingdom goods to the Free State represented under 8 per cent. of the total United Kingdom export trade. It is to be noted that Mr. de Valera's Government have already announced their intention of attending the Ottawa Conference, and that in the numerous provisional tariffs imposed since they took office—on cut

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flowers, agricultural machinery, potatoes, boots and shoes, clothes, cream, motor-car bodies, and shovels—the usual imperial preference has been given. On the other hand, they count on the fact that the Free State is one of the few considerable customers with whom Great Britain maintains a favourable balance of trade, to prevent the British Government from using economic pressure against them.

Unemployment

The Government's policy for the relief of unemployment, which was one of the principal planks in their election programme, has proved to be still very vague, and the various government departments have been apparently asked to meet the deficiency by formulating schemes which are to be co-ordinated by the Government into a general plan. It seems that this plan will eventually comprehend the development of housing and roads, the creation of new industries and the extension of existing industries as the result of tariff, and the increase of tillage by compelling the millers to use native wheat. All of these suggestions, except the last, were in process of development under the Cosgrave administration. It may also be pointed out that the statistics issued by the International Labour Office show that unemployment increased last year in the Irish Free State by only two per cent. The new Government also propose to decentralise industry by fostering rural industries. For instance, they aim at having many small flour mills scattered over the country instead of a few large port mills in convenient places, and they are believed to have taken steps already to discourage an English milling firm from developing the Irish port mills in which it is interested. Their general attitude towards foreign capital, and particularly English capital, is likely to be defensive and suspicious, but they are already beginning to discover that even Irish capital is a shy bird, which is not likely to undertake large commitments under present conditions, and that unemployment cannot be permanently decreased by State action alone.

The economic difficulties to which the political situation may give rise are best indicated by the statement issued to their employees by Messrs. Jacob, the well-known and progressive Dublin biscuit manufacturers, in which they point out that if the Free State leaves the British Commonwealth they will be compelled to reduce their employees in Dublin by 50 per cent., or over a thousand persons; and by the warning of Sir Percival Perry, the Chairman of the Ford Company, that recent political developments in the Free State had occasioned his company grave concern—a statement which would seem to indicate that the future of the Ford factory at Cork (which employs some thousands of men) is hanging in the balance. The Government have also imposed a levy of 2d. a pound

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on all butter manufactured in, or imported into, the Free State, and will apply the revenue so derived to subsidise the export of butter at a rate not exceeding 4d. a pound. As more than 60 per cent. of the Free State butter is still manufactured on the farm, and as very little of this farm-made butter is exported, the result will naturally be a heavy tax on the farmers who make their own butter and on our urban population who consume it. The number of officials required to collect the tax can be left to the imagination. Apparently the inspiration for this scheme is to be found in recent Australian legislation.

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THE UNITED STATES : A YEAR OF DESPAIR

THE financial section of the *New York Evening Post* for Saturday, April 30, 1932, carried the following items as one day's news :—

Further scattered liquidation of stocks in the final session of the week today resulted in an extension of the stock decline into new low ground for the bear market.

Led by speculative railroad issues, bond prices today penetrated into new low ground for the bear market.

Renewed selling in basic staples this week indicates that liquidation has not yet run its course in the futures markets. Although many commodities are now selling far below average production costs, prices broke through previous resistance points to establish new low levels for the year.

On May 1, the *New York Times* published its index of business activity for the week ended April 23. The combined index of freight car loadings, steel mill activity, electric power production, automobile production, and cotton cloth production reached the lowest figure of these depression years, being 58 per cent. of normal.

Lo ! the dry bones of the spectre which is called deflation ! But perhaps they can be made to dance a bit by the injection of a few more figures. *Similia similibus curantur*. Our stock market averages are conventionally divided into three groups, industrials, rails, and utilities. During the past two weeks, the United States Steel Corporation, giant among American industrials, has passed the dividend on its common stock after showing a loss of \$13,000,000 for the first three months of 1932 ; the Pennsylvania Railroad, the country's largest railway system, has deferred its common dividend, marking the first inter-

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ruption in payment since 1847 ; and three related utility companies, Insull Utilities Investments, Corporation Securities Company and Middlewest Utilities Company, all the creation of Samuel Insull, have gone into the hands of the receiver, with book assets totalling more than \$1,300,000,000. Probably it is no wonder that stock prices "went into new low ground for the bear market."

But what does this mean to the investor ? I do not have in mind the misguided brother who bought American and Foreign Power at \$199 per share and can't get more than \$3 for it to-day ; nor the one who put his funds into the first-named Insull enterprise at \$146 a share and will have to take 40 cents a share for it on the Exchange tomorrow. These misfortunes are fantastic. I am thinking of my friend who retired from business in 1929, at the age of 62, with \$220,000 for investment. He had a fancy (those were the Belshazzar days) to have a quarter of a million safely invested in the highest type of equities—New York City bank shares. So he borrowed a mere \$30,000 and bought as many shares at \$25,000 would buy in each of ten leading New York banks. To be specific : he bought shares of the Chase National Bank of the City of New York, National City Bank of New York, Guaranty Trust Company, Irving Trust Company, Brooklyn Trust Company, Central Hanover Bank and Trust Company, Manufacturers Trust Company, Bankers Trust Company, Chemical Bank and Trust Company, and The Manhattan Company. He bought them because he believed that the economic progress of the United States could not be interrupted ; he held them, through these nerve-wracking three years, because he believed that "prosperity was just around the corner." He kept them pledged, those beautiful engraved certificates, against his loan of \$30,000. And when, on April 30—Spring in the air and the magnolia trees in bloom in Central Park—their market value declined to \$30,000, down from \$250,000, the bank from whom he held the loan sold him out—to protect themselves. Not

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an institution on the list had failed, their published statements for the quarter ended March 31 showed their assets to be more liquid than they had ever been in banking history. They were actually paying dividends to yield 8.72 per cent. on the market price. But my friend got sold out. That night he hired a room high up in a mid-town hotel, and the next morning, early, they found his body in the street. He left a note behind, quite an intelligent note, in which he said that he was sixty-five years of age, with no job, and with no prospect of finding one; that he had a wife and an invalid daughter with no possibility of supporting them. By realizing on his insurance in this summary fashion he could provide his family with the means for living life out. He apologized for the suddenness of his action; but he suspected that the insurance companies themselves might be getting a bit rocky, and he thought that it would be best for his wife and daughter to be in a position to collect the proceeds of his policies before these companies, too, became insolvent.

What is this? Is it supposed to be an indictment of somebody for buying shares when they were too high? Or an attack on creditor banks for calling their clients' loans? Not a bit of it, not a bit of it. You asked what difference it made if the percentage of normal electric power consumption for the week ended April 23 declined from 71.8 to 70.8. And I was merely saying that I didn't know much about it myself, but that it seemed to make some difference to my friend.

II.

INDUSTRIAL activity has declined so far that there are eight million wage earners out of work in the United States to-day. Except for the meagre purchases which they can make with their savings and with the limited amount of money which is provided for their needs through charity, the country is utterly deprived of their purchasing

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power. And as the "deflation" continues, the number of unemployed increases, savings deposits disappear, and charitable contributions are more difficult to obtain. During the past winter, in New York City alone, the relief agencies compiled a list of 750,000 unemployed: it is likely that the whole number of people out of work was nearer to a million. Some forty million dollars was found for relief; half represented the voluntary gifts of private individuals and corporations, half was given by the City and the State. All of that money has now been spent, and no one knows where to turn for further funds except to the taxing and borrowing power of the State and City governments.

To these eight million who have lost their buying power in the general collapse of industry, there must be added as many more, engaged in agriculture, who have roofs over their heads, to be sure, and the means of providing their families with some food, but have no cash to spend on their many other needs. Wheat, cotton, beef, milk, butter and eggs are selling in primary markets for less than the cost of production. Just as certain shares are selling at less than the value of their net quick assets, just as certain sound bonds are going at receivership prices, just as copper is being marketed today at two-thirds of its production cost, so the farmer is converting his produce into dollars at a loss. The story is told of a Canadian woman who trucked four dozen eggs twenty miles to Moose Jaw to market. Nobody really wanted to buy, so finally, for the sake of cash, she took five cents a dozen for them. Then, feeling the need of something to eat before the long trip home, she went to a lunch room and ordered two fried eggs. Her bill came to twenty cents. Having accomplished these two transactions under the auspices of our economic system, she drove back to the farm, where, no doubt, she found it difficult to explain to her husband how the law of supply and demand had worked in her case.

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In the year 1929, in the United States, a vast number of people were throwing away money in order to acquire corporate securities, real estate, manufacturing plants, motor cars and radios. That we called a boom. In this year, 1932, about as large a proportion of the population are throwing away corporate securities, real estate, manufacturing plants, motor cars and radios in order to acquire money. This we call a panic. The first phase of the gigantic cycle was accelerated by greed : the second phase is accelerated by fear. It is obviously in society's interest to prevent such precipitous swings in the cycle ; but they can only be effectively prevented when society has found a sure way to set limits to the fruits of greed and to the consequences of fear. 1930 was the year of disappointment —the tide of prosperity had ceased to flow in one direction. 1931 was the year of disillusionment—the return to prosperity, though sure, would be slow. 1932 is the year of despair. The race for individual and corporate economy, for individual and corporate liquidity—though understandable in each single case—is shattering the machinery of money-getting and money-spending which we call capitalism. As Mr. J. M. Keynes says in the May number of the *Atlantic Monthly* :

With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that for the world as a whole the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in the order of time.

“Nowhere,” he adds, “is this better understood than in the United States.” This much, at least, we understand : that when every individual and every corporation is in a state of “jitters,” and when collapse is threatened by the cumulative effects of fear—the only possible way to avert collapse is by allaying these fears, and the only instrumentality which can possibly bring about this change is

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psychology is the government. The record of the government of the United States in this respect is not a thing to be proud of. All through 1930 our "leaders" sat on the stage and beguiled the people with reassuring words which, in retrospect, sound so short-sighted and altogether so witless that it would be a cheap form of sport to repeat them here. Early in the next year the slogan became one of "patience and confidence": whatever goes down must go up: we live in business cycles. Banks were closing their doors, here and there, all over the country: but the audience were led to regard these casualties merely as tragic incidents in the cyclorama. When the Credit Anstalt collapsed in May, the first trace of smoke drifted into the theatre where the public sat. It was keenly noticed by certain gentlemen of the banking fraternity who picked up their hats and coats, unobtrusively, and made for the door. The Hoover moratorium blew more smoke into the pit; so that the audience began to fidget, and in September, when London went off the gold standard, they rushed for all the exits, suddenly, in a body. Gold moved out of the country at an alarming rate, security prices tumbled, over a thousand million dollars were drawn out of accounts and hoarded at home. Fear rode in the saddle, and by the end of December more than two thousand banks had shut up shop—all in the space of twelve months' time. The Secretary of the Treasury gave a vivid description of the sequence of events to the Associated Press on April 26:

Every bank that failed frightened depositors. They withdrew deposits. The withdrawal of deposits frightened the banks. The banks in turn sought to make themselves liquid—that is, they sold investments, called loans and stopped making new loans. As this movement proceeded the prices of bonds fell progressively to lower levels, weakening the position of all banks holding them as a secondary reserve, and carrying a threat to other great fiduciary institutions.

In January, 1932, there were 342 bank suspensions; and it finally became evident to government that "the whole

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 credit structure of the nation was gradually being imperilled."

III.

BE it said that Congress, under the leadership of the President, faced the issue squarely. A Reconstruction Finance Corporation was established and empowered to employ the national credit to the extent of \$1,500,000,000 in providing "emergency financing facilities to banks . . . insurance companies . . . and railroads." Banks were to be assisted, not for the sake of their shareholders, but for the sake of their depositors, and because they were "affected with the public interest," being essential parts of the credit machinery of the country. Railroads were to be protected from receivership, not only because of the dislocation of commerce, industry and employment which would ensue, but also because of the fact that railroad liens have been, and still are, the chief medium of investment for American insurance companies. There can be no doubt that the creation of this emergency corporation, and the work which it has accomplished since February 2, have been the most important weapon in the war which the Administration is now waging against the forces of fear and the processes of deflation. As compared with 342 bank suspensions in January, with deposits of \$219,000,000, there were forty-five suspensions in March and seventy in April, with total deposits of less than \$65,000,000. In these same two months \$250,000,000 in currency crept out of hoarding and went back into the banks. On April 21, testifying before a Committee of the House of Representatives, Charles G. Dawes, President of the Corporation, stated that in the seventy-one days of its existence there had been loaned to adequate security to banks and trust companies in the United States \$243,000,000, to railroads \$77,500,000, and to other quasi-public financial institutions the sum of \$50,000,000.

The Corporation has been functioning (he said) for a period of

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only about eleven weeks. It is carrying on its work with the utmost expedition consistent with proper methods of procedure. As yet it has used in its operations only about one-fifth of its resources ; and chiefly on that account time must elapse before the full beneficial effects of its operations can be properly appraised. But already the beneficial effect of its most important work thus far—its loans to banks and trust companies—is sufficiently evident to have alone justified Congress in the creation of the Corporation.

The Glass-Steagall Bill, signed by the President at the end of February, is the second weapon in the Government's war on fear. The Bill has been called "the most important piece of banking legislation enacted since the Federal Reserve Act of 1914." After signing the Bill, Mr. Hoover issued a statement commending the non-partisan co-operation shown in both houses of Congress and describing the major purposes of the new law as follows :

First : In a sense this Bill is a national defense measure. By freeing the vast amounts of gold in our Federal Reserve System (in excess of the gold reserve required by law) it so increases the already large available resources of the Federal Reserve Banks as to enable them beyond question to meet any conceivable demands that might be made on them at home or from abroad.

Second : It liberalizes existing provisions with regard to eligibility of collateral and thereby enables the Federal Reserve Banks to furnish accommodation to many banks on sound assets hitherto unavailable for rediscount purposes.

These two important measures—the Bill creating the Reconstruction Finance Corporation and the Glass-Steagall Bill—were designed to deal with certain "situations." Any one of the situations in itself was serious enough ; while all of them together, if not corrected, were certain to carry the country into financial chaos. Thanks to the new legislation, the fear of bank failures has been greatly allayed ; the market price of railroad securities held in the portfolios of financial institutions, while still unsatisfactory, is no longer governed by panic psychology ; the central banking system is in a position to withstand the flight of foreign gold ; and those banks which are members of the

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Federal Reserve System are now relieved of much of the pressure which compelled them to sell their investments and call their loans in order to be in a position to meet extraordinary demands from their depositors. If the Corporation, the Treasury and the Federal Reserve all persevere along their present lines of effort (and if Congress is able to produce a satisfactory budget before it adjourns) we may be able to look back upon these present months as marking the turn of the depression.

And the Government has gone one long step further. In addition to these two powerful protective measures, a new and bold offensive has been launched by the Federal Reserve System. On April 13 Governor Harrison, of the New York Federal Reserve Bank, disclosed the details of a vigorous "easy money" policy upon which the Reserve had recently embarked. For some weeks following the passage of the Glass-Steagall Bill the Federal Reserve had been buying government securities at the rate of \$25,000,000 a week. Governor Harrison announced that the System had recently purchased and would continue to purchase "governments" at the rate of \$100,000,000 a week until conditions should cause them to modify that policy. The object of this carefully planned offensive is to lift the price of "governments" to a point where they become an unprofitable medium of investment for fresh funds; and thereby to force financial institutions into the municipal and corporate bond market. All this should logically lead to freer lending and to a rise in commodity prices.

On May 3, by a vote of 289-60, the House of Representatives passed the Goldsborough Bill, charging the Federal Reserve Board, the Federal Reserve Banks and the Secretary of the Treasury with the "duty" of restoring the purchasing power of the dollar to the 1921-1929 level and maintaining it there! The Bill in some ways is absurd; but not more absurd than the consternation which it appears to have caused in Continental Europe. For the measure is hardly more than the expression of a

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pious wish ; it may well be defeated in the Senate ; it is sure to be killed by a Presidential veto. If the Reserve Board, the Reserve Banks and the Treasury do embark upon such a mad career of uncontrolled inflation as some of our Continental friends seem to fear—that phase will be signalled, not by a Goldsborough Bill or its like, but by the resignation of Eugene Meyer from the chairmanship of the Board. Meanwhile, he has put his hand to the plough and is not likely to turn back. It is reported that the Board is prepared to buy "governments" at the present rate until September ; and will coolly watch \$700,000,000 in gold leave the country, if need be, before swerving from its present policy.

If this bold offensive is to succeed, it must be given time and it must be favored by circumstances. All the financial institutions which have been liquidating their investments as fast as the markets could absorb them will not change over to the buying side forthwith. Banks which have been sternly calling loans for the past two years will not readily put their money out except to prime borrowers ; and prime borrowers are either already in a strong cash position themselves, or else they are waiting upon developments before expanding their operations through the use of credit. So that even if no adverse event occurs, it will be many weeks before the desired effects of the Federal Reserve's new policy are felt. It is a gigantic task—that of making the flood turn and flow up-hill.

And there is one further factor. If the Senate and the House of Representatives, who have been floundering for the past two months over the problem of balancing the budget—if they adjourn for the summer and for the Presidential campaign without solving this problem in reasonably satisfactory fashion, the water will cease to move up-hill, and the country will once again be engulfed in fear. On April 30, at the close of the first ten months of the government's fiscal year, \$4,020,000,000 had been spent, while receipts had amounted to only \$1,686,000,000.

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The deficit for the whole year cannot possibly be less than \$3,000,000,000, and may in fact be considerably higher. No one in his senses has dreamed that these figures could be brought into mathematical balance for the next fiscal year. Every scheme that has been proposed for effecting a balance has allowed for suspension of sinking fund payments of the government debt, amounting to \$400,000,000. They have all been predicted upon the probably false assumption that \$250,000,000 will be received by the United States Treasury from foreign governmental debtors. And the yield from proposed income tax schedules is reckoned on the questionable premise that business will be better next year than it is today. The goal to be reached by fresh taxes and reduced expenditures has been set at \$2,000,000,000. If Congress provides ways and means for finding that much money, they will have done all that can reasonably be expected of them. If they fail, from shortsightedness or from a cowardly unwillingness to lay taxes and make economies in quarters where they fear resentment, the credit of the United States will be most gravely imperilled. Government securities will suffer on the exchanges, our financial institutions will resume their mad race for liquidity : and the financial structure of the country will probably collapse.

The essence of the matter (writes Walter Lippmann) is not statistical, but political. The underlying question is whether the American nation acting through its party system can convince itself that it is awake and determined. If that can be done (and it could be done by a few bold and quick decisions in Washington to pass a tax Bill, accept the President's economies and kill the prospect of a soldier's bonus Bill by June 1) the immediately necessary will have been accomplished. The budget will not really be in balance, but the government itself will be coherent and responsible. On such a demonstration depends in good part the restoration of the confidence of the people.

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IV.

BY the time this article is printed we will have learned, for better or for worse, how the United States has passed through the most tense moment of a crisis in its financial history. The outcome may give the reader cause to smile at the faith, herewith asserted, that the bonus Bill will not be passed and that the budget will be "balanced" before Congress adjourns. But, even if this rash prophesy comes true, what of it? Well, since life is what it is, we can then look forward, rather wearily, to the task of wrestling with the economic consequences of Lausanne.

United States of America.

May 5, 1932.

DISARMAMENT

I. THE BACKGROUND OF THE CONFERENCE

THE governments of the world are facing at the present moment a series of problems which in complexity and difficulty have never been paralleled in history, while in urgency and importance they are hardly to be reckoned inferior to the direct issues of peace or war. Within a few months, conclusions must be reached in the financial and economic field the effect of which will probably be decisive for or against the happiness of, at least, one generation of human beings all over the world. In the Far East there has arisen a crisis which, while there is hope that it may yet be solved to the common benefit of China and Japan, is nevertheless fraught with tragedy and danger to both countries, and is seriously affecting both the political and material interests of the nations of the West. And it is at this moment that the Disarmament Conference brings our overburdened governments face to face with a fresh group of political problems of first-class importance.

That this should be the effect of the Conference was no doubt in any case inevitable. Until recent times, political and military power have been practically interchangeable terms. A growing respect for law and justice, on the one hand, and the vast increase of commercial relations and financial interdependence, on the other, have now accomplished a notable change, and the establishment

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of the League of Nations has given solidity and permanence to the advance thus made, and provided a base for further progress. Nevertheless, it remains a fact that in the solution of any serious international question the comparative military resources of the disputing States constitute an element always important, often decisive; and changes in the present situation in respect of those resources will inevitably involve proportionate changes in the political situation also.

To this general rule the Treaty of Versailles created an artificial exception. Germany, while remaining necessarily a Power of first-class political importance, was reduced militarily to the third class. Such a situation is a problem in itself: and the statement in the Treaty that this reduction was imposed "in order to render possible the initiation of a general reduction of the armaments of all nations" shows clearly enough that the Allies recognised that their action involved the facing of further decisions in the near future. For years Germany has been awaiting those decisions: behind all the activities of Stresemann and his successors, behind Locarno and The Hague, behind political recovery, reduction in reparations figures, withdrawal of foreign troops, she has never ceased to feel that in the disarmament question lies the test, both in symbol and in fact, of her real restoration.

These considerations bring us, then, straight away to the two fundamental questions of the Conference:—First: Are the great military Powers prepared to forego some part of their present superiority over other nations? And second: What answer should be given to Germany's demand that the Conference should put an end at least to the moral inequalities to which she has been subjected since the Peace Treaty?

But if these two problems dominate more completely than any others the whole deliberations of the Conference, it is none the less evident that those others are numerous, important, and difficult. Italy demands the recognition,

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at least in theory, of her right to parity with any other continental Power ; she means, of course, France, and there is little indication that France is prepared to accept her claim. There is mutual suspicion between Soviet Russia and her western neighbours, as well as between Soviet Russia and Japan. There is the problem of restricting military aviation without interfering with the peaceful development of civil and commercial flying. Special provision must be made for the governments which have to keep order in those regions of the world where civilisation has penetrated mainly in the form of an improvement in military equipment. Some means must be found of giving due weight to the differences between States which enlist their military forces by conscription, and those whose system is based on voluntary long-time service ; and again, between States whose industrial development enables them to equip themselves rapidly for war, and those which possess no such resources. Some agreement must be found, satisfactory both to members and non-members of the League, for ensuring that countries which loyally keep their new obligations will not be exposed to fresh danger from less scrupulous neighbours.

It is true that there have been long and detailed discussions on many of these questions, but this preliminary work has been of value rather in bringing to light the problems which have to be faced than in making any real progress towards their solution. They are in the last analysis political problems requiring political decisions ; and in this, even more than in other fields, it is quite useless to expect that technical discussion by experts will do anything to modify the policy of governments. Agreement on such matters must be the outcome of a state of mind in which mutual concession becomes easy : it can never be brought about by argument.

The delegations to the Disarmament Conference are therefore in reality faced with the solution *de novo* of problems which would be enough to occupy the whole of

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the attention which governments can in normal times devote to international affairs. There is, of course, an essential connection between the questions of disarmament and security, on the one hand, and those of reparations and war debts, on the other ; between the political relations which are affected by the one, and the economic relations which are affected by the other. The complex of major international problems at the present day is a connected whole, and progress or retrogression in one sphere will soon make itself felt in the others. Nevertheless, it is clear that it is beyond the capacity of the world in its present condition to advance simultaneously along the whole line, and it is probably true that it would have been to the general advantage to have postponed the holding of the Disarmament Conference until the more pressing financial problems had been dealt with, and until some improvement in the economic situation of the world had begun to make itself felt. It has been impossible either for governments or for intelligent public opinion to concentrate on the Conference as might with advantage have been the case. Add to this that in two of the countries most vitally concerned, France and Germany, critical elections were fixed for the months of April and May, and that a third country, Japan, was engaged during the whole of the first month of the Conference in war-like operations on a considerable scale. It cannot be expected that there would be a time when all conditions were favourable for such a meeting. But it can hardly be doubted that the moment at which it has met—a moment fixed more than a year in advance, at a time when most of the present unfavourable conditions could not possibly have been foreseen—has in fact proved singularly unfortunate, and that the Conference will take a much longer time to arrive at results than would have been the case if the governments had been in a position to concentrate on it what may be called the whole of their exportable surplus of attention and energy.

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II. THE EARLY PHASES

NEVERTHELESS, in spite of unfavourable circumstances, and whatever may be its final result, the holding of the First General Disarmament Conference is an occasion which could not fail to appeal to the imagination of the world. Great efforts have been made in many countries to impress on public opinion the historic importance of the occasion and the necessity that their governments should play an honourable part. From every continent, and almost from every country, petitions for its success have poured and are still pouring into Geneva. Practically every country is represented: from this point of view no previous event can be compared with the Disarmament Conference: it is the first meeting of all the nations of the world. The official delegations include, besides an imposing array of experts and exalted staff officers, a high proportion of the leaders of public life in the various countries, although it has been one of the consequences of the circumstances already described that Prime Ministers and Foreign Ministers have been unable to remain continuously in Geneva. The numbers of the official delegations are equalled, if not surpassed, by those of the journalists, publicists, politicians, and representatives of international organisations. It was a matter for regret that, in spite of the pressing invitation of the British Government, it was in the latter capacity, and not as a member of the British delegation, that Lord Cecil was present, and made, on one of the early days of the Conference which was set aside for the presentation of addresses from international organisations, a speech which was recognised as an admirable exposition of the results of much national and international discussion on all the aspects of disarmament. The British delegation and the Conference as a whole are much the poorer for his absence.

The Early Phases

The Conference opened on February 2, with Mr. Arthur Henderson in the President's chair. Appointed by the Council as President at the time when he was still British Foreign Secretary, he had been somewhat criticised in certain quarters for not resigning the appointment when he ceased to hold office. It may be said at once that his presidency has been a complete success, and that the severe illness from which he has not yet entirely recovered has in no way impaired the qualities which made him last year the best chairman who ever presided over the Council of the League. The fact that he is not officially connected with any delegation has probably proved an advantage rather than the reverse.

It had been anticipated that the Conference would be faced at the outset with the difficulty of deciding to what extent its work was to be based upon the Draft Convention which had been drawn up by the Preparatory Committee for the Limitation and Reduction of Armaments as a result of a long series of meetings in 1928, 1929 and 1930. The Draft Convention, as was to be expected considering the wide difference between the views of many of the governments represented on the Preparatory Committee, contains some articles which represent little more than a compromise along the line of least resistance; some which are the result of narrow majorities in the votes taken by the Committee; and some which are accompanied by more or less destructive reservations and objections. It had been made particularly obnoxious to Germany by the insertion during the last session of the Committee of an article to the effect that the new Convention would not take the place of the disarmament clauses of the Peace Treaties; and for this and other reasons Germany had always set herself against the idea of taking the Draft Convention as the basis of the work of the Conference. A large majority of other delegations, including the British and American, while they considered that the Convention was far from perfect, nevertheless regarded it as embodying the result of much

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serious technical work and of an honest attempt to find the greatest common denominator of agreement, and therefore held that from a practical point of view the Conference could not do better than take it as a basis. But the expected difficulty never arose, for within a week of the opening of the Conference the spokesmen of the great Powers had made it clear that their ideas went far beyond the limits of the Draft Convention. Germany could and did accept without misgiving a resolution proposed by Sir John Simon to the effect that the Convention should be taken as a framework which could be added to, subtracted from, or changed in any way desired. It thus took its proper place as a convenient summary of the preparatory work of the last few years, a practical tool at the service of the delegations, without any limiting or compromising effect on their freedom of action.

The work of the Conference up to the beginning of May may be divided into three phases. In the first phase, the various countries, with the great Powers in the lead, declared their general policy on the disarmament question, setting forth not so much the ideal at which they aim—for there is no country which would declare that its ultimate goal is anything short of complete disarmament—as the achievements which they hope might be reached by the present Conference, the methods they would apply for the purpose, and, less explicitly, the dangers they desire to guard against.

In the second phase the Conference, a trifle bewildered at the unexpected wealth of new suggestions, sorted and classified the immensely complex material for discussion, and at the same time organised itself into a machine for dealing with this material—tasks that had to be got through, but of no interest to the public at large, and trying for the patience of the delegates. The Conference was glad, on its completion, to break up for the Easter holiday.

The third phase has a superficial resemblance to the first. We are back in the atmosphere of general, almost of

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theoretical, ideas about disarmament. But as we shall see, its discussions have, in fact, been several degrees nearer to the realities of the problem. The stage of concrete results is still beyond the horizon; but we are none the less in definite and conscious relation with it.

III. QUALITATIVE DISARMAMENT

THE first phase of the Conference was opened by M. Tardieu, who laid before it a complete scheme which soon became known as the French plan.

The French plan proposes in the first place measures to deal with the problem of military aviation. It is suggested that all military machines should be divided by tonnage into three classes, the biggest machines to be transferred immediately to an international air force, those of medium tonnage to be retained by individual States on condition that they agree beforehand to place them at the disposal of the League in case of need,* and the lowest class to be retained at the free disposal of the individual States. These measures are put forward by the French as meeting the two points which they regard as essential, namely, to strengthen international action against aggression, and at the same time to allow each country to defend itself against sudden bombing attacks from the air.

In regard to naval and land armaments, the French plan refers only to two categories, viz., the more powerful weapons, which would be retained by the States on condition that the latter undertook to place them at the disposal of the League in case of need, and the less powerful—for instance, ships of war under 10,000 tons or carrying

* The plan provides that, if States not members of the League accede to a convention based thereon, the international authority at whose disposal these armaments would be placed could be modified accordingly. This explanation should be understood whenever the League of Nations is referred to in connection with the plan.

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8-inch guns or less—which would remain at the free disposal of the individual States.

These are the only parts of the French plan which specifically relate to the reduction of armaments, or, at any rate, the reduction of armaments under the control of individual nations. The plan is completed by further proposals of a general character, which, however, form an integral part of it. First, as regards civil aviation, it is proposed that in order to meet the difficulty so often pointed out, viz., that limitation of military aircraft may be rendered ineffective by the development of commercial aircraft which can be used with little or no alteration for purposes of air bombardment, an international civilian air transport service should be created to take over and develop existing air lines. Secondly, it is proposed that every State should place a small military, naval, and air contingent at the permanent disposal of the League, to be sent to act as an international police force in any part of the world wherever there might appear to be a threat of war ; and should further guarantee in advance that if war should break out and the League should require military action to be taken against the aggressor, it would be ready to contribute a certain further force for this purpose. Thirdly, it is proposed that a strict limitation should be placed on the freedom of action of belligerents with regard to long-range artillery or aerial bombardment, and that the use of gas shells should be forbidden. Fourthly, it is declared that the whole plan necessarily depends upon the acceptance of more complete and definite rules governing the action of individual States in regard to the settlement of disputes ; in particular, that it should in every case be obligatory to refer to arbitration disputes not otherwise settled, and that the League should take measures to enable it to define in every case which State is the aggressor if war should break out.

Such is a brief summary of the French plan, which is presented to the Conference with an indication that it should be treated as a whole, and that unless it is adopted

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by all other States France will be unable to make further reductions in her military strength beyond those which she claims to have made already as a result of the Covenant of the League and of the Treaties of Locarno.

The reception given to the French plan was far from cordial. It was vigorously denounced in the German and Italian press, which declared that the French were merely covering their intention to retain their full military superiority by a show of loyalty to the League, well knowing that the conditions which they proposed had no chance of being accepted by the other major Powers. Amongst the delegations more friendly to France, including the British, it was felt that the plan was too much concerned with politics and too little with disarmament, and that if the French were to insist on treating it as an indivisible whole it could not possibly lead to any positive results. No serious public debate, and little serious private discussion, have been given to the plan so far, partly because other lines of approach have appeared more likely to lead to results, partly because, with first Germany and then France engaged in election campaigns in which foreign policy has been one of the decisive elements, the Conference has almost instinctively fought shy of engaging in a public argument which would be bound to involve serious embarrassments for both. Though it may be said at once that it has no chance of acceptance in anything resembling its present form, it is likely that the plan would gain rather than lose by discussion. Politically, it is, no doubt, at least premature; and it is hard to resist the criticism that it takes far too little account of the general desire for a prompt and extensive reduction of existing armaments. On the other hand, the charge of bad faith against its authors can hardly be sustained by anyone who has followed French policy in these questions since the war, or who knows the intense interest which liberal circles in France take in the development of international organisation. That it is

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based on France's view of her national interest should be no reproach in the eyes of supporters of the League, the only solid and permanent basis of which is the conviction of its member States that their individual interests are in the long run best served by the maintenance of peace and by co-operation with other countries. Finally, it contains the first detailed suggestions for applying special treatment to armaments which are either exceptionally powerful or are specifically designed for offensive rather than defensive military action.

The idea of specially reducing, or totally abolishing, certain categories of arms, as opposed to the idea of a proportional reduction of all, is now known under the description of "qualitative" as opposed to "quantitative" reduction. It does not appear in the Draft Convention, except in the form of prohibition of chemical warfare. It was, as has been seen, foreshadowed in the French plan. It forms the essence of the proposals of Great Britain, the United States, and Italy. Its emergence as the most practical and hopeful line of approach to effective reduction is undoubtedly the most significant fact of the early stages of the Conference. Yet, though it seemed new because it had hardly appeared in the work of the Preparatory Committee, it had already been applied—side by side with the quantitative method—in the Versailles Treaty itself. Germany is prohibited by the Treaty from possessing warships of over 10,000 tons, tanks, heavy guns, military aviation of all sorts. Though none of the proposals of the three Powers go as far as Germany asks, it is clear that their general tendency must be most welcome to her; for reduction on these lines is *pro tanto* a definite advance both in practice and in theory towards the equality which she claims, and which even those who most strongly desire reconciliation with Germany would hesitate to offer in the form of encouraging her to construct new armaments on the present scale of those of her neighbours.

The simple theory of qualitative and quantitative

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reduction was set out with admirable brevity and clearness by the first British spokesman, Sir John Simon.

We must recognise (he said) that the limitation of armaments by international agreement can only be brought about by the use of one or both of two methods of treatment. One is the method of fixing maximum limits beyond which we severally bind ourselves not to go ; the other is the method of excluding by international agreement from use in warfare certain defined instruments or methods, and for both these modes of treatment we require as a further safeguard some international authority which will effectively secure that these limitations are not overstepped.

The British Empire, he declared, was ready to accept both methods. We would accept the fixing of maximum establishments in every category, on the lines of the Draft Convention. We desired to abolish submarines, gas, and chemical warfare ; and to co-operate in finding practicable methods of reducing the size of ships and the calibre of guns, both naval and land. These last suggestions were explained in phrases which are worth quoting because they express a point of view which has steadily grown in influence as the Conference proceeded.

We take the view that the temptation to resort to armed conflict is obviously reduced if defence is strengthened at the expense of attack. And since our common object is not to increase but to diminish the sum total of armaments and their expense, it follows that we must direct especial attention to such prohibitions or limitations as will weaken the attack and so remove temptation for aggression.

Some may feel that the suggestions for the practical application of these principles lack something in courage and thoroughness. But their clear enunciation has already proved of high value : and the event may yet show that our Administration, in spite of a tendency to regard prudence as the highest virtue, is capable of illustrating once more the excellent British tradition of performing more than we promise.

The American delegation followed a similar line : "We believe that this Conference should and can successfully

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devote itself to the abolition of those weapons which are devoted primarily to aggressive war." Their concrete suggestions aimed at proportional reductions from the figures for naval tonnage laid down in the Treaties of Washington and London, as soon as France and Italy had adhered to the London Agreement; the abolition of submarines; protection of civilians against air bombing; abolition of chemical warfare; special restrictions on tanks and heavy mobile guns. In presenting these proposals to the Conference Mr. Gibson emphasised, as Sir John Simon had done the previous day, that the delegation did not mean, in putting forward certain specific points, to imply that it was not prepared to consider other concrete suggestions.

Italy carried the application of the principle several steps further. Her delegation has come to the Conference with instructions to press in every way for the greatest possible measure of reduction. The evolution of Fascist foreign policy is certainly one of the most interesting phenomena of international relations of the present day. For long considered as the *enfant terrible* of Europe, Italy has absorbed with Latin thoroughness the doctrine of enlightened self-interest, and in the questions of disarmament and of reparations she has placed herself boldly on the side of reconstruction and reconciliation. It is true, no doubt, that the basis of this policy is in part to be found in a desire to find support against French influence in eastern Europe. We are told, too, that the inspiration of young Fascism is still directed towards military glory and national expansion. In any case, Italy's foreign policy in the present juncture is clear and brave. She has found an admirable spokesman in Signor Grandi, her Foreign Minister, who, though still under forty, is rapidly making himself a place among the leading statesmen of Europe. Signor Grandi was a combatant in the war: it is a strange and rather unhappy reflection that he is about the only leading figure in the Conference of whom this can be said.

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The Italian proposals are not only openly based on the "qualitative reduction" principle, but they take as their text the disarmament clauses of the Treaty of Versailles. These clauses, said Signor Grandi, "by abolishing the most distinctively aggressive means of warfare, afford us a practical example of what disarmament should be in the spirit of the League of Nations and of the Kellogg Pact." He proposes, therefore, simultaneous abolition of submarines and of capital ships, abolition of aircraft-carriers, of all kinds of heavy artillery, of tanks, of bombing aircraft, and of chemical warfare.

A few words will complete this summary of the attitude of the great Powers in the first phase of the Conference. Japan's position was practically a reproduction of that of Great Britain. Germany repeated once more her demand for equality and put forward a scheme for general disarmament going much beyond even the Italian proposals. The Soviet delegation took the occasion once more to declare that the capitalist States have no real intention of reducing their armed forces, and to ask for the rapid adoption of the most radical measures. These are special cases, and since it is clear that there is no likelihood of proposals so far-reaching finding general acceptance at the present Conference, they need not be considered in detail.

The speeches of the representatives of the smaller States brought, as was to be expected—for the armaments problem is obviously in the main a question for the great Powers—little that was new. Many of them, not only amongst those who generally follow the lead of France, showed a liking for parts of the French plan, in particular for the suggestion to place civil aviation under international management, and for the idea of a "police force" at the disposal of the Council. The attraction of this idea undoubtedly arose in part from the view which, rightly or wrongly, is universally held among the smaller countries, that the Council ought to have been able to intervene in a more decisive way in the early stages of the Manchurian conflict,

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and that the existence of certain forces earmarked before hand to be sent at its discretion to act as police in any given area would, in fact, have enabled it to do so. But the prospect of prompt and positive reduction in the world's stock of powerful armaments was, of course, still more attractive to all the smaller States ; and, above all, they welcomed the suggestions for the abolition of aerial bombardment. Some of them pointed out that countries which possessed no armaments industry of their own would be at too great a disadvantage in the case of conflict with a country which possessed such an industry, unless they were allowed to keep some stock of the more powerful weapons which their adversary could hardly be expected to refrain from making and using. This is clearly a point which must be provided for in any disarmament convention. With reasonable good-will, it presents no insurmountable difficulties. It may be mentioned in passing that Turkey and the Argentine took the opportunity of declaring, the one her wish to join the League, the other her wish to return to it.

Among the rank and file of League membership, no group is of greater interest than that of the British Dominions, who stand alone in that for all the distance, geographical and political, which separates them from Europe, they have had recent and terrible experience of modern warfare. Their interest in the problems of the Conference is more remote, but no whit less substantial, than that of their European colleagues. And they have much to teach : what European can hear without some touch of shame of South Africa united into a single people within a few years after the end of a desperate war, of Canada with her 3,000 miles of undefended land frontier ? No one will blame the Dominions if they feel at the present time that it is best for them, so far as membership of the League allows, to hold aloof from the dangers of European quarrels rather than to risk further commitments in order to avert them, and if, in consequence, they are inclined to refuse

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any consideration to the French plan. Such an attitude is still less surprising when we consider that it is on the whole that of the present Government in the United Kingdom, in spite of the fact that England, deeply involved by history, by treaty, by ties of commerce and of sentiment with her European coevals, can never remain a spectator of their troubles. Yet two at least of the Dominions, Canada and South Africa, have always shown a real and constructive interest in the League, and may be trusted to realise that co-operation and concession by all concerned are needed to enable it to perform its task for the common good. No speeches made recently in Geneva have shown a better understanding of its purpose than those delivered by Mr. Te Water, the South African delegate, in the Disarmament Conference and in the Assembly. Mr. Te Water is a real find: clear-headed and courageous, it may be that he is destined to embody in succession to Botha and Smuts the political genius of South Africa. There could be no prouder ambition.

The second phase calls for little comment. The delegations and the Secretariat at Geneva have learnt most that there is to know about the technical side of conference management. In spite of the immense mass and complexity of the material with which it had to deal, the Conference did not take long to arrange it into a manageable agenda list, based as far as possible on the Draft Convention, and to organise its committees—a committee for land armaments, one for naval armaments, one for air armaments; a budgetary committee (to deal with the plans for limiting armaments by limiting the budget appropriations for the purpose); a political committee (to deal with questions of supervision, etc.); and a general committee consisting of the heads of delegations, which is to assign its work to each of these committees and receive its report. In this work of organisation the Conference owes much to the indefatigable labours of M. Benes, the Foreign Minister of Czechoslovakia. He possesses a deep

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knowledge of the whole question, an unequalled understanding of the views and prejudices of each delegation or group. The subject-matter of the Conference is too weighty to be manipulated even by the most exceptional diplomatic energy and skill ; but by electing M. Benes to one of its chief offices it has ensured that all that is possible will be done to avoid unnecessary friction and loss of time.

During the Easter holiday which followed, it was announced that Mr. Stimson would join the American delegation soon after the Conference re-opened. It was already known that Mr. Ramsay MacDonald, M. Tardieu, and the German Chancellor, Dr. Brüning, intended to be in Geneva at the same time. Meanwhile, what we have called the third phase of the Conference began in a somewhat dramatic manner with a formal declaration by Mr. Gibson that the United States was definitely prepared to abolish what they considered aggressive land armaments, viz., all tanks and all mobile guns of over 6-inch calibre, and invited the other nations to do the same. The issue of " qualitative reduction " was thus squarely joined, and while Italy gave wholehearted, and Great Britain a somewhat hesitating and partial, support to the American proposals, M. Tardieu lost no time in taking up the challenge. Which weapons, he asked, are aggressive, and which are defensive ? Tactically, a tank is no doubt a weapon of attack : but if it is used in attacking an enemy entrenched in one's own country, it is strategically and essentially a weapon of defence. War equipment, whether on land or sea, or in the air, must be treated as a whole : it was illogical to demand the abolition of all but the least powerful land weapons, while retaining the infinitely more formidable menace of battleships with their wide range and terrific attacking power. Finally, it was impossible to accept such proposals before even any serious consideration had been given to the French plan. Great wars were waged before such weapons were dreamt of : we gain nothing in security by abolishing them, whereas by main-

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aining them at the exclusive disposal of an international organ pledged to prevent aggression we can make future war impossible.

The courtesy of international discussion forbade M. Tardieu to voice the real feeling of the French, viz., that the United States was proposing the abolition of weapons which were of no use to herself, since there is no possibility for her of serious warfare with her neighbours on land, while giving up nothing in the sphere of air and naval armaments which may be important to her. The same view is held by many States of Latin America, who, while seeking to use the opportunity of the Conference to make mutual limitation agreements among themselves, undoubtedly hope that it will have the effect of relieving them to some extent from fear of the naval and air forces of the United States. However, though events in the Far East have doubtless strengthened the hands of the Big Navy school, we may confidently expect that if Mr. Gibson's proposals concerning land armaments seem likely to lead to results, the United States will be ready to consider analogous proposals in regard to air and sea. This is at once their only chance of acceptance and the test of the spirit in which they are proposed.

After ten days of debate the Conference passed unanimously a resolution in general terms declaring itself in favour of qualitative reduction, but without coming down definitely on the side either of prohibition or of internationalisation ; and instructed the three technical commissions on land, sea, and air armaments to report which weapons were most offensive in character or most effective against defence.

This summary brings the history of the Disarmament Conference down to the beginning of May. The technical commissions are now at work on the task of defining which weapons are aggressive and which are defensive. The results of their work have yet to be received : but they are not likely to make the path of the Conference

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any easier ; for how can it be expected that the representatives of the fighting services should willingly sign the death-warrant—even with a prospect of some delay in executing it—of any considerable division of the organisations with which their lives are bound up ? There can be no doubt that if serious results are to be achieved the heads of delegations must be prepared to go further than their technical advisers.

IV. INTERIM REFLECTIONS

MEANWHILE, for several days the men on whom above all rests the responsibility of guiding the principal countries through their present difficulties have had an exceptional opportunity for discussion. It is too early to do more than guess what use they have been able to make of it. Their task is difficult indeed. In spite of the warnings which have poured out from League conferences, committees and assemblies since 1927, national egoism in the economic sphere has brought international trade to a standstill and the industrial countries to the verge of ruin. Fear of financial and economic disaster has intensified the national caution of the great Anglo-Saxon countries, and made it more difficult than ever for their governments to look beyond the empirical decisions of the moment. In Germany men are waiting to see whether the National-Socialists will carry out, now that they have a large share of power in the country, the policy of defiant nationalism which they preached in Opposition. France is in the middle of an election campaign which will show her reaction to the developments of German politics. The national feeling of Poland is not less ready to take an aggressive form, and in Danzig and along the frontier hotheads on both sides have to be continually restrained from provoking incidents which would turn them for a moment into national heroes. The war-clouds in the Far East show no sign of lifting, and are none the less dangerous

Interim Reflections

because in Europe men begin to take them for granted and to forget their existence.

There is no way out of all this trouble that does not involve sacrifices and concessions from all concerned. No advance is possible so long as each country considers in isolation the justice of its own claims, and waits for the others to recognise it. It is of the utmost importance that public opinion and the press, especially in Europe, should realise and act on this truth. The part played by the French and German press in particular, in connection with the Conference, has been a real hindrance to its progress. Every slight concession is called a victory for the other side and considered a proof of weakness. Every form of malevolence and insincerity is freely ascribed to any delegation which differs from that of the writer. A heavy responsibility rests on the shoulders of those who thus add unnecessary difficulties to the already overwhelming task of the statesmen who must agree or perish.

For the Conference itself it may be said that in spite of unfavourable circumstances its early stages have on the whole been successful, but that immediate further advance may be difficult. The German and French elections have held up its progress, which can hardly be resumed until the political life of the two countries has again settled down. The vital decisions to be taken at Lausanne in June on the problems of reparations and debts will then have to be faced, and it is doubtful whether any great development of the Disarmament Conference can now be expected before the autumn. In view of the vast complexity and vital importance of the subject, this is not surprising nor particularly regrettable. No one has the right to criticise the slowness of the Conference who is not prepared to ask his own Government to make the concessions which are needed to keep it moving on the road to success.

Geneva.

May 1932.

THE FAR EAST

SINCE September 18 of last year the Far East has been in the centre of the international stage and the main preoccupation of the League of Nations. Would that it had been so earlier and that, in this country and in Western Europe in particular, it had not become habitual to regard Europe as the chief danger-spot in the post-war world! For, to anyone who has tried to gauge the real forces in international affairs without allowing his perspective to be distorted by relative distances, it has long been clear that it is on the western shores of the Pacific, the home of nearly one-third of the population of the globe, that the world has to face the greatest threat to the new constitutional system which the statesmen and peoples have been seeking to build up so as to avert another world war. It was with the object of meeting this threat in time that a group of far-sighted men in 1925 founded the Institute of Pacific Relations, with National Councils in the various countries concerned with the problems of that area, in the hope that a clash might be prevented by frank and friendly discussion. The clash has occurred. Nevertheless the discussion has not been fruitless. The issues indeed are of such a kind that they cannot be settled by force of arms. It is a Gordian knot that not the sword but only the slow fingers of Time can untie. Whatever the momentary situation in Manchuria and around Shanghai, the fundamental facts remain substantially unchanged. The chief of these concern China: and it is with China, therefore, that these pages must primarily deal.

China : The Basic Factors

I. CHINA : THE BASIC FACTORS

BY a Treaty signed in Washington on February 6, 1922, and in force since August 5, 1925, the British Empire, together with the United States, France, Italy, Japan, Belgium, Portugal and the Netherlands, has undertaken "to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government." The occasion on which this obligation was undertaken was of singular solemnity, for the Conference of which it was one of the principal results marked the achievement of the first measure of disarmament by mutual agreement of which history bears record: and the political and disarmament agreements were strictly interdependent. Neither could have been achieved without the other. From this spring political consequences of world-wide importance which must be left aside for the moment. Here we must first deal with the extent and meaning of the obligation which, since the Washington Conference, forms the basis of British policy not in China only but throughout the Far East: for, in existing circumstances, geographical, economic and political, our relations with Japan must be influenced at almost every point by our policy towards China.

China is the oldest civilised society in the world. Six thousand years before the Christian era "there was in China an Empire in certain respects more cultured than that of Rome in the age of the Antonines."* Dynasty succeeded dynasty, but the essential elements which hold Chinese life together have lasted on unimpaired, withstanding, as anyone who has really communed with the mind of even the most Western-educated of the race can certify, the impact of the republicanism, the materialism

* *The Capital Question of China*, by L. Curtis, p. 6 (Macmillan & Co., 1932, price 10s. 6d.).

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and the ephemeral values of the present age. The Confucian ethic, with its insistence on the virtues of everyday life, cheerfulness, common sense and honesty as between neighbours, together with the obligation of family piety, in the Latin sense of the word, has proved a social cement by means of which over one quarter of the world's population has contrived to live for thousands of years grouped in families and villages without losing its social cohesion and the sense of belonging to a larger community. Utterly different in its outlook upon the world from the restless children of Greece and Rome, with their more highly centralised type of organisation, their practical applications of natural science and their new-found belief in "progress," this vast section of humanity, with its roots even deeper in tradition than our own, has within the last few generations come into close contact with the West. It is a contact between civilisations, the most interesting for the scholar, the most momentous for the statesman, that the world has seen. How can it be turned to good account? That is the question asked, and left open, by the Washington Conference.

The relations between Great Britain and China go back to the seventeenth century, when tea first found its way to London. In 1715 the East India Company began to trade regularly with Canton, and gradually Indian opium assumed its place as the main import in exchange for Chinese tea, silk and porcelain. By 1830 the Indian trade had grown to 4,000 chests per annum, and in the succeeding decade, the monopoly of the East India Company having been abolished in 1833, the trade increased seven-fold. The Chinese Government, aloof in haughty isolation, was not equipped to deal with a problem of foreign policy which at first seemed only to concern the provincial authorities. The inevitable difficulties were thus accentuated by a misunderstanding of the Chinese political system, and the resulting war ended in the cession of the bare island of Hongkong for the convenience of British

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trade and in the opening of certain "treaty ports," including Shanghai and Canton, to foreign trade.

During the ensuing eighty years, from 1842 to 1922, British policy in China was a policy for the furtherance of British trade. No attempt was made to extend British political power, still less to promote mutual understanding between the two political communities concerned. In 1843, indeed, the British Government made it clear that it sought no exclusive rights, securing only the right of most-favoured-nation treatment in all arrangements made by China with other Powers. Hongkong grew to be a great emporium of over 600,000 inhabitants; but it never served as a link between the deeper thought of East and West. Individual British officers, including General Gordon, trained Chinese armies, and individual British administrators, of whom Sir Robert Hart is the most famous, made the Chinese Maritime Customs the most efficient piece of machinery in the Chinese State. But the British Government averted its eyes from the political problem presented by the contact of the two systems. At the close of the nineteenth century, when Japan had begun to show her Westernised power and German and Russian ambitions in the Far East were becoming important factors for British policy, Lord Salisbury awoke to the fact that political relations between China and the West could not continue as they were. But he saw in China only a Turkey writ large. Partition between Western governments seemed inevitable and, for the sake of the commercial interests involved, he endeavoured to secure a fair share for Britain. The despatch in which he instructed our Ambassador in St. Petersburg to initiate negotiations with Russia to that end has recently been published and throws a vivid light on British policy only thirty-four years ago, and on the immense psychological change, both in the East and in the West, which has come about since then.

Our idea (writes Lord Salisbury, amplifying a previous despatch) was this. The two empires of China and Turkey are so weak that

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in all important matters they are constantly guided by the advice of foreign Powers. In giving this advice Russia and England are constantly opposed, neutralising each other's efforts much more frequently than the real antagonism of their interests would justify; and this condition of things is not likely to diminish, but to increase. It is to remove or lessen this evil that we have thought that an understanding with Russia might benefit both nations. We contemplate no infraction of existing rights. We would not admit the violation of any existing treaties, or impair the integrity of the present empires of either China or Turkey. These two conditions are vital. We aim at no partition of territory, but only a partition of preponderance. It is evident that both in respect to Turkey and China there are large portions which interest Russia much more than England and *vice versa*. Merely as an illustration, and binding myself to nothing, I would say that the portion of Turkey which drains into the Black Sea, together with the drainage valley of the Euphrates as far as Bagdad, interest Russia much more than England: whereas Turkish Africa, Arabia, and the valley of the Euphrates below Bagdad interest England much more than Russia. A similar distinction exists in China between the valley of the Hoango with the territory north of it and the valley of the Yangtze.

Would it be possible to arrange that where, in regard to these territories, our counsels differ, the Power least interested should give way to and assist the other? I do not disguise from myself that the difficulty would be great. Is it insuperable?*

This particular negotiation fell through, but the rivalry between the Powers continued; a year later the United States Minister in China was convinced that China was breaking up. "A glance at the map," he wrote in a despatch to Secretary Hay, "will show Russia strongly entrenched in Manchuria, Germany in Shantung, Italy demanding Chekiang, Japan expecting Fukien, England at Hongkong and the French in Kwantung and Tongking, with the English claiming an extended sphere along the Yangtze . . . There is practically nothing left for the United States but the province of Chihli." Secretary Hay, however, set his face against partition and, in a unilateral declaration in 1899, followed by a circular telegram a year later, laid down the basis of a more liberal

* *British Documents on the Origins of the War*, Vol. i, p. 8 (dated January 1898).

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policy. Great Britain at once agreed: indeed she had repeatedly sought American co-operation in the same sense, but the United States had been reluctant to embark on any policy which might seem to savour of an alliance or to involve an obligation of joint action for its maintenance. Hay's intervention, as Mr. Stimson has justly claimed, "brought to an end the struggle among various Powers for so-called spheres of interest in China which was threatening the dismemberment of that empire." It rested on the twin principles of the open door and the preservation of the territorial and administrative integrity of China. Notwithstanding infinite difficulties and complications, this has been the broad basis of the policy of the Powers during the last thirty-two years. There have been no new alienations of Chinese territory. In Manchuria, indeed, Japan succeeded in 1905 to the rights already secured by Russia, as she succeeded after 1914 to the German rights in Shantung. But Japan did not embark on her war with Russia in a spirit of imperialist adventure, in order to secure the territorial aggrandisement on which Russia herself seemed bent. Her object was to keep the Russian power at a safe distance so as to be assured of free access to the resources, both of China as a whole and of the three eastern provinces. It is interesting to recall to-day the words used by one of the wisest of the Elder Statesmen, Marquis Ito, during the height of the Russo-Japanese war, a few weeks before the fall of Port Arthur. "It was unprofitable," he told the Second Secretary of the British Embassy in an after-dinner talk, "for any country to endeavour to go beyond those limits which appear to have been set by nature to its powers; to do so was to open a source of weakness." For that reason Japan "neither wanted Manchuria, nor was she strong enough to maintain large garrisons indefinitely on the remote borders of that province"; and, as the chief danger to Japan came from the Russian control of the railway, he suggested that "the only method by which a

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lasting peace could be secured, would be by the internationalisation of the railway from the point where it enters Chinese territory." As regards Sino-Japanese relations his views were equally moderate.

The Japanese (he said) could by themselves effect but very little. It was true that Japanese could understand Chinese better than all but a very few foreigners could ever hope to, but the character of the two nations was too dissimilar and the resources of Japan were feeble. If, however, England were to co-operate with Japan, then much might be done. England had been the first to open up China, and her influence there was older and wider than that of any other country. The two were thus well fitted to work together.*

Much has changed in the world and in the relative position of the great Powers since that confidential talk in Tokyo in November, 1904; but the permanent elements in the situation remain unchanged. These are the indestructibility of China, the economic needs of Japan and the fact that only "a very few foreigners" have been able to enter into the mind and soul of China and to penetrate to the deep-lying elements in the Chinese nature which constitute at once its apparent weakness and its unshakable strength under the strenuous conditions of the modern world. But it is equally true that only "a very few foreigners" have understood the mind and soul of Japan: and it is to Japan that we must now turn.

II. JAPAN AND HER LOST OPPORTUNITY

THE history of Japan is one of the strangest in the world's annals. Its main lines should be familiar to all who would pass judgment on her present actions. It is, indeed, one of the great gaps in Western education, which our schoolbooks are even now not seeking adequately to repair, that the memories which enliven, and too often embitter, the consciousness of every Japanese awaken no echo, and can thus inspire no sympathy, in Western minds.

* *British Documents on the Origins of the War*, vol. iv, pp. 64-66.

Japan and Her Lost Opportunity

Japan is ruled by a dynasty whose line goes back unbroken for over two thousand years. That is the central fact about the Japanese community. The Chinese is an ethical being : the Japanese is a political being : together the two nations make up the sum-total of the social teaching of Aristotle. The relationship of the individual Chinese to his family and to his village corresponds to the relationship between the individual Japanese and the Mikado. The *pietas* of the Chinese is within the narrow circle of home and surroundings : the authority of the village elder gains in veneration by his being described as a "father and mother official." The Japanese have been living for two thousand years, and still live, under a paternalism centred in the person of the monarch. It is not a theocracy, but it is sufficiently close to a theocracy for this to call for denial. "There is not now, nor ever has been," said Marquis Ito in the conversation already referred to, "a single Japanese who believes that the Emperor is a god ; he is a man"—here he stretched out his arms—"just like myself. It is almost impossible for anyone not a Japanese to understand the feeling of a Japanese towards His Majesty : it is most like to that which you entertain towards a father."*

Japan encountered the West in the sixteenth century in the form, first, of Jesuit missionaries, and then of firearms. The Jesuits and the Franciscans who followed them, after making many converts, were expelled from the country after a few generations. By the use of gunpowder, a group of able leaders broke down the power of the feudal nobles and firmly established the authority of the central government. But the real control was exercised not by the Mikado but by the military chiefs, of whom Hideyoshi, an Oriental Bonaparte and of equally humble extraction, was the most remarkable and the most ambitious. Under his rule Japan proceeded to make the mistake of Louis XIV and his successors—to seek military glory through conti-

* *Loc. cit.*, transposed from the *oratio obliqua* of the despatch.

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mental conquests rather than economic development through overseas enterprise. The conquest of China was the lure that led him on; and the road to China was through Korea. The war began in 1592, the Japanese sending across the straits what a recent historian describes as the greatest force ever sent on overseas service previous to the South African war of 1899-1902. The struggle was long and bitter: after one victory the ears and noses of 38,700 Koreans were packed in barrels and sent home to be buried in a mound which is still shown to visitors in Kyoto—and is not forgotten in Korea. But deficiency in sea power led to the abandonment of the enterprise in 1598. In the reaction that followed, the unity of the country was completed by the putting to death of native Christians and the expulsion of foreign priests. The statesman responsible for that policy, Ieyasu, persuaded the Mikado to grant him the title of Shogun and to make that office hereditary in his family, the Tokugawas. From 1616 to 1867 the Tokugawas were the real rulers of Japan.

The Tokugawa regime was a bureaucracy, surely at once the most nervous and the most efficient that the world has ever known. In 1637 it was alarmed by a revolt of Christian peasants, which was suppressed with much bloodshed. It was then determined to close Japan to intercourse with the outside world. No Japanese subject was allowed to leave the country on pain of death, and no ship might be built larger than would carry 2,500 bushels of rice, the build and rig being prescribed so as to make an overseas voyage a crazy adventure. Contact with the world was maintained by the admission once a year of a single ship from Holland. Thus during the two centuries when Europeans were exploring the outer seas and colonizing their territories the Japanese, already skilled in the arts of Europe, were deliberately cut off from competition.

By 1608 (writes Mr. Curtis*) as many as 15,000 [Japanese] were settled in the Philippines. . . . A glance at the map is sufficient to

* *The Capital Question of China*, p. 49.

Japan's Problem

show that, once established in the Philippines, the Japanese must have quickly felt their way to Borneo, the Moluccas and New Guinea. In the course of two centuries they must have discovered and annexed Australia and New Zealand. Their navies must have mastered the Pacific more thoroughly than those of England mastered the Atlantic. They would scarcely have brooked exclusion by Spain from the whole American seaboard. They might well have supplanted the Spaniards in America, and to-day the civilisations of Europe and Japan would be facing each other in regions south of the great lakes. As it is, the civilisation of Western Europe dominates the ocean which washes the shores of Japan ; while she, following the path traced by her peasant dictator, has seized Korea and is driven to seek in China the means of supporting her teeming millions.

III. JAPAN'S PROBLEM

JAPAN is a country poor in natural resources with a rapidly growing population. That is the sum and substance of her foreign policy.

The problem which thus confronts the Japanese people is one of recent date. During the Tokugawa period the population was stationary, checks of many kinds, including infanticide, being employed in all levels of society to prevent an increase. At the first general census, that of 1721, the registered population was a little over 26,000,000. In 1846 it was 26,900,000. After the close of the Tokugawa regime the birth-rate began to mount. In 1872 it was 17 per thousand, in 1928 it was 34·4. The population of Japan proper at the last census in 1930 was 64·4 million, the total population under Japanese rule—including Korea, the leased territory of Manchuria (1·5 million) and the mandated Pacific islands—being 91·8 million. In most Western countries the birth-rate and the death-rate are both decreasing ; in Japan both show an increase, though the death-rate has not risen so fast as the birth-rate. The two phenomena are, in fact, related, for between 1924 and 1927 38 per cent. of the deaths occurred among children under four years of age.

Japan has hitherto always been an agricultural nation.

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But her territory is mountainous, and only 15.4 per cent. of the total area is arable. For the annual increase of 900,000 mouths it is calculated that five million bushels of rice are needed, equal to the output of 133,000 acres of land. For the past twenty years the annual increase in rice land has been from 25,000 to 35,000 acres a year.

To meet this new pressure on food supply (writes a careful Western observer*), Japan must annually bring under cultivation an area of new land four to five times greater than the area she has been able to make arable in any past year by the expenditure of the most arduous labour. Japan has no frontier of empty lands available for the taking. If production is to be increased, cultivation must climb higher up the mountain sides, steeper slopes must be terraced, farm land must be pushed farther into the sea, swamps reclaimed, new irrigation systems built, or greater crops forced from the soil—always in the face of greater and greater obstacles.

For this hungry multitude there are but two ways out—emigration or industrialisation. Emigration on a large scale is excluded, either for political or climatic reasons. Where the Japanese could live, in the warm and temperate lands of Australasia and America, they are not free to go. Where they are free to go, as to Manchuria, Sakhalin and the northern island of Hokkaido, they cannot live in comfort. There remains industrialisation.

But here, too, circumstances are inexorable. Industrialisation demands access to iron for cheap construction and to coal or oil for cheap power. Japan has practically no iron ore, little coal, and that of bad quality, whilst her annual output of oil, which has steadily declined since the peak was reached in 1916, amounts now to about seven-tenths of the output of the United States for a single day. Signor Mussolini is fond of characterising Italy as a proletarian nation. Japan is the proletarian nation ^{per} excellence, the foremost representative of the Have-Nots in modern civilisation. No other people has so great an interest in international justice, if by that is meant,

* *Japan's Economic Position*, by John E. Orchard, p. 6, New York, 1930.

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as it has meant in the domestic sphere, not simply the enforcement of existing rights but also the development of orderly means for remedying the maldistribution of wealth. Unhappily, it is precisely in the field of international economic relations that men have been most reluctant to apply constitutional processes or even to recognise the necessity for having recourse to them. If the Japanese people have turned to-day from constitutional to revolutionary methods for satisfying their urgent needs, and if they are more inclined to see their "vital interest" in the monopolising of the resources of Manchuria and the securing of a tied market in the rest of China, than in a general policy of access to raw material and the breaking-down of economic barriers and other discriminations, no small reproach attaches to the statesmen and peoples, unhappily often belonging to the British Commonwealth, who at Geneva during the last twelve years have banged, barred and bolted the door even to the discussion of these vital international problems. "Justice," "Necessity," "Self-preservation"—call the issue by what name you will, the logic of facts is inexorable. "Things are what they are, and their consequences will be what they will be." They are working themselves out to-day before our eyes in Shanghai and Manchuria—to-morrow perhaps elsewhere. Is it too late for international statesmanship to recognise and act up to its responsibilities?

For Japan can find no relief for her economic problem by political action in China and Manchuria. Here again the facts are unanswerable.

An industrialised Japan can only live by developing her exports. Of these, two are of major importance, silk and cotton textiles. Both go predominantly to markets which are extremely sensitive to Japanese political action. Of the Japanese exports over the five year period, 1925-29, an average of 42.5 per cent. were sold to the United States: 85.5 per cent. of the goods thus sold were raw silk (83.3) and silk tissues (2.2). These figures are an eloquent commen-

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tary on Mrs. Hoover's cotton dress and on the growing movement in the United States for "non-intercourse without resort to war," of which the rayon manufacturers may be trusted to take advantage. Cotton textiles are sold chiefly in China. But the Chinese have discovered that in the boycott they possess a weapon which can exert as powerful an influence on policy as military force itself. First used against Japan in 1908, then in 1915, at the time of the Twenty-one Demands, its technique has been steadily perfected with the growth of patriotic sentiment, until it has become a major factor in the political situation, not to be broken by bombs and bayonets. The 1931 figures, recently published, show that Japanese exports fell off by 22 per cent. compared with the previous year; the decrease, however, was principally in the period subsequent to September 18, the November figures, for instance, showing a decrease of 35 per cent. on November 1930. There is no way out of this dilemma by the political or economic control of Manchuria. It is true that, under the regime which was recently overthrown, Japanese imports into Manchuria had remained stationary, and even declined, since 1918, whilst European imports—a fact insufficiently noted in the West—had been steadily increasing. But the thirty million, predominantly Chinese, inhabitants of Manchuria, even if they can be compelled (contrary to the treaties and to recent assurances) to "buy Japanese" are a poor substitute for the 400 millions of China and the luxury purchasers of the United States.*

Three facts stand out clearly from this analysis. The first is that China, amorphous, unorganised, distracted by flood, invasion and internecine rivalries, is nevertheless, by the most modern measurement of political forces, more powerful than the Island Empire with its modern technique and its highly developed naval and military machine. The

* The facts regarding Manchurian trade are conveniently summarised by Dr. Herbert Feis, now Economic Adviser to the U.S. Department of State, in a pamphlet published in April, 1931, by the Carnegie Endowment (No. 269).

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second is that the establishment of good relations with China on a durable basis, which must be a basis ensuring self-respect for both parties, is a vital interest for Japan. The third is that, quite apart from the immediate problem of Sino-Japanese relations, the Far Eastern situation has brought to light general issues of international economic policy which the world can no longer afford to shirk.

IV. THE COLLECTIVE SYSTEM IN THE FAR EAST

THE Sino-Japanese conflict is the most testing experiment to which the collective system, compounded of the Covenant of the League of Nations and the Kellogg Pact for the renunciation of war, has yet been subjected. Let us, in conclusion, briefly examine how matters now stand in this regard.

The object of the collective system is to establish the rule of law in the world. The States that are parties to it are pledged to refrain from taking the law into their hands for the redress of grievances, however legitimate. Thus, so far as the collective system is concerned, the foregoing analysis is irrelevant to the present issue. "It is clear beyond peradventure," in Mr. Stimson's words, that Japan, by her action on and since September 18, has violated the two general and one of the regional agreements on which the peace settlement in the Far East had been built up. That settlement is, for the moment, if not in ruins at least seriously shaken, and so is the agreement between the three chief naval Powers which was the consequence of, and interdependent with, the Far Eastern political arrangements. Unless and until confidence can be restored between the signatories to these various treaties, conditions in the Far East must remain precarious. That neither of the major parties to the dispute, though they have fought pitched battles and been engaged in trench warfare, should have declared war, and that the League of Nations should

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have equally closed its eyes to patent facts and thus refrained from putting into force its sanctions against the aggressor, are two important elements in a complicated situation and may ultimately facilitate an adjustment. But the fact remains that, morally, a state of war exists. During the long-drawn closing phase of the South African war Lord Rosebery urged that the protagonists should arrange to meet for a quiet talk "at a wayside inn." The war to-day is as real, and spread over as wide an area, as that which ended in the reconciliation between Botha and Milner. The wayside inn may perhaps be conveniently found in Geneva, famed for the gastronomical resorts in its vicinity. But all the arguments of lawyers and the juggling with texts cannot alter the fact that peace has been broken and remains to be restored.

It is of little avail to dwell in retrospect on the handling of the conflict by the Council of the League of Nations between September and February, or to speculate upon the course that events might have taken, had less reliance been placed upon conciliation and persuasion, or if there had been more perfect team-work between the League of Nations and the United States. "If only China had shown something of the spirit of Belgium," remarked in January one who had been closely associated with the Council's proceedings, "it would have been easier to help her." The heroic resistance of the Chinese troops outside Shanghai supplied the Belgian touch. Chinese political leaders plucked up courage to appeal to the Assembly. That body, which had allowed itself to disperse in September in the belief that the Manchurian incident would be quickly disposed of, now showed unexpected vigour. Mr. Stimson, in his letter to Senator Borah, laid down a new doctrine of non-recognition which the Assembly adopted and thus invested with a kind of collective sanction. Finally a Commission of nineteen members of the Assembly was appointed to sit in permanent session to ensure that the resolutions for the evacuation of Shanghai and Manchuria

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by the Japanese were being carried out. Meanwhile, the Lytton Commission, the one product of the Council's deliberations between September and Christmas, had arrived in the Far East and has now, after a successful diplomatic tussle, entered Manchuria together with a Chinese assessor, Dr. Wellington Koo.

Taken together, these proceedings indicate the emergence of a new technique for the working of the collective system. They may even point the way for the breaking of the deadlock in which it has been involved during the last twelve years by the conflict for priority between security on the one hand and disarmament and treaty-revision on the other. For the doctrine of collective non-recognition, coupled with voluntary economic sanctions put in force by the public opinion of the peoples most closely concerned, may be found to provide a weapon against the aggressor no less formidable, and therefore no less effective as a deterrent, than the more comprehensive military, naval and other measures from which public opinion in the English-speaking countries instinctively shrinks. On the other hand, the Lytton Commission is charged with a task which, in fact if not in name, involves a revision of existing treaties: for it is barely credible that, if it grapples with its task in a broad-minded way, its recommendations will not include some modification of the legal rights both of the two disputants and of the other Powers. The Commission indeed has a historic opportunity: it may yet do for the League of Nations what Lord Durham did for the British Empire, and Lambton and Lytton may be twin names in the pages of history.*

* The Lytton Commission, in a preliminary report, records that, as against 10,590 Japanese troops in the South Manchuria Railway zone last September, there were, on April 30, 6,600 Japanese troops in that zone and 15,800 outside it, together with 85,000 men of the "Manchukuo Army," largely directed by Japanese officers. There were besides 119,000 local police. These forces were opposed, according to the Japanese—the Chinese put the figures rather higher—by 43,000 Chinese regular troops, about 40,000 volunteers, and 52,000 bandits. The Commission purposely refrain from comment at this stage.

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But all this is still in the realm of conjecture. No one at this stage can forecast the pace at which events will move. But their direction is clear from the political and economic forces that are inexorably at work. In shaping these for constructive ends, for the lasting benefit of the Chinese people and their neighbours, Great Britain has, as the Marquis Ito suggested nearly thirty years ago, a unique part to play. For we are not only the oldest of the Western Powers to have close contact with China: we have a political system which, in contrast with that of Japan, has passed through what may be described as the early modern period of efficient centralisation and taken on a new flexibility, inspired by an inner discipline comparable to, though very different in its expression from, that which constitutes the moral strength and cohesion of China. China presents the greatest political problem of our age— all the greater, and the more hopeful, because it is in essence not political but educational. To politicize Confucianism is to enrich the West without disintegrating the East. Only China herself can solve her own problem. She is engaged in searching all things in the Western world. She will assuredly end in estimating them by her own traditional values and in holding fast to that which is good. But in that task, not of a day or of a generation, we of the West, if only we will recognise that the real meaning of the Far East for us is not trade but wisdom, may well render helpful service. The first condition of helpfulness is understanding: and the first condition of understanding is that the problem of the Far East should be a living issue in the minds of our statesmen and brought home by them, with all the resources of fact and interpretation at their disposal, to the minds of their fellow-countrymen. September 18 came like a thief in the night, both for the League of Nations and for ourselves. Events, which could not have been foreseen, have afforded us a second chance. Let us not misuse it.

THE SHANGHAI STANDPOINT

IN the five weeks that have passed since the nightly glare of the fires died out of the sky over Chapei and the bombing and gunfire ceased, a bruised and battered Shanghai has had time to take stock of the damage and sort out its ideas of the future.

The immediate visible damage has fallen mostly on the Chinese—the devastation of a huge area north of the Settlement, a big loss of life and the destitution of tens of thousands of the poorer inhabitants. The even greater invisible damage in the form of stoppage of business and trade has hit Chinese and foreigner alike. Its extent is as yet not calculable, though some indication is given by a drop of about 70 per cent. in the Shanghai customs figures. At the time of writing the Chinese shops have been boarded up for over two months, while the Chinese native banks—an essential cog in the financial machine which carries the trade of the port—are still out of commission. "Confidence" has been shattered and—most serious of all—a sense of insecurity utterly crippling to trade is expected to persist after the present crisis is over.

The reason for this expectation is that, quite apart from the Japanese trouble, conditions before the crisis are considered to have contained the germs of a clash like the present. There were, people believe, a number of latent dangers in the situation. The three generally mentioned as being the most important are the inadequacy of the ordinary legal safeguards conjointly with the Chinese tendency towards organised anti-foreignism, the standing

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liability of having Chinese armies of uncertain allegiance stationed about the borders of Shanghai, and the absence of satisfactory working arrangements between the international government of the Settlement and the Chinese government of Greater Shanghai. (Readers of the Feetham Report on Shanghai * will remember a similar series of points in the Judge's discussion of the question of "security.")

The general feeling about the risks of returning to the old footing is leading to various proposals. These fall into two classes. The first is based on the idea of protecting Shanghai by ringing it off from the rest of China. This idea takes form in schemes for a "Free City" or an internationalised zone under the League of Nations. It is fairly obvious that schemes so radical as this would become practical politics only if the political disintegration of China were to reach the stage of chaos. The other class of proposals aims rather at removing specific dangers. The idea is mooted of a Sino-foreign "super-authority" over the whole Shanghai area to deal with defence and law and order. But more moderate opinion argues in this wise: "We share the feeling about the present need for comprehensive reforms, especially those along the lines of the Feetham Report, but Japan's violent action has made it extremely difficult to put forward demands without the appearance of exploiting the military situation for our own advantage. This we are bound to avoid. We must therefore limit ourselves to the bare essentials necessary for giving Shanghai a reasonable measure of security against future armed clashes." The difficulty is to define "essentials." Opinions vary, but the following principal suggestions are commonly brought up: the reform of the Chinese court, demilitarisation in the Shanghai area, an arrange-

* Report of the Hon. Mr. Justice Feetham, C.M.G., to the Shanghai Municipal Council. (Messrs. John Pook & Co., 68, Fenchurch Street, E.C.2.—price 8s. 6d.) See also THE ROUND TABLE, No. 84, September 1931, p. 738.

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ment with the Chinese about the "extra-settlement area" (the subject dealt with in Vol. III of the Feetham Report). The first arises partly from the behaviour of the court during the period of tension before the landing of the troops, when members of the boycott societies which had forcibly seized Japanese goods were acquitted on the ground of patriotic motive; partly also from a general feeling that the court has from the start been under political control and failed to dispense justice. The suggestion of demilitarisation needs no comment beyond saying that it raises formidable problems of military and financial responsibilities. The third suggestion regarding the "outside" areas is justified by its authors as a step towards the removal of a dangerous source of friction; in some people's opinion, however, it comes rather too perilously near to asking for chestnuts picked from the fire by Japan.

These are briefly the safeguards which Shanghai believes to be necessary for safety and the restoration of confidence. Can they, and how can they, be obtained? So long as there is a Government of China the changes involved in these safeguards can only be brought about by voluntary agreement between that Government and foreign Powers, since arrangements under duress are *ipso facto* rejected by members of the League. They must therefore come, if at all, as part of a mutual settlement between China and Japan, or else because the League (or some other grouping of Powers) raises the Shanghai issue as a distinct question brought up on its own merits in the interests of world peace and on account of its economic importance to all parties concerned. The League Commission, when recently here, had its attention drawn to the Shanghai question, and the suggestion has been made that it might be raised at, or immediately after, the proposed Round Table Conference, if the latter eventuates.

About the Chinese response one cannot be very optimistic. China at present is in no mood for concessions. On the other side is the undoubted fact that thousands of

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Chinese, including many men of position, are keenly anxious to see Shanghai put in a better position of safety in so far as this can be done without loss of national face. Agreements with China for the better security of Shanghai need not, however, be entirely one-sided, and China's self-respect might well allow her acceptance of proposals issuing from the League which, coming from another quarter, she would unhesitatingly reject.

For any solution of Shanghai's problem the *sine qua non* is, of course, a peaceable settlement of the Sino-Japanese conflict. Concerning this Shanghai is not at the moment of writing feeling hopeful.* A mutual settlement implies on Japan's part a certain degree of withdrawal and on China's a certain degree of recognition of Japan's gains in Manchuria. Japan's national pride has become so implicated through her initial military check that it seems impossible for her to take the first step, while China, flushed by the success of the XIXth Army, is equally unready to make any concession. The League Commission is working to build a bridge, but its bricks are the strawless bricks of unbacked persuasion and there is little confidence in its success. The position is made worse by China's domestic differences, which are at present barely concealed. Nanking and Canton are still unreconciled, while the Kuomintang and its whole system of government are becoming the object of a concerted attack.

Looking back to the causes of the crisis, there is still much variance of opinion concerning the blame for the outbreak of fighting on January 28. A major part of the blame is ascribed to the Japanese admiral, but a tendency also exists to credit the Chinese XIXth Route Army (which had

* As regards the military operations in Shanghai itself, an armistice agreement was signed on May 5, whereby, while the Chinese troops remain in their actual positions, the Japanese forces undertake to withdraw, beginning within a week, to the International Settlement or to a limited area outside. Japan has since announced the withdrawal from Shanghai, within a month, of all troops except 2,000 bluejackets. (See *The Times*, May 13.)

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lately come north in the rôle of a "bodyguard" for the Cantonese leaders) with hostile intentions against the International Settlement, though the supporting evidence for such a suspicion is slight. On the subject of "war guilt" in general, opinion is likewise not fixed. The resident in Shanghai is inclined to look past the events of the last six months to the years behind when the trouble was gradually brewing and when not a little of the provocation of which Japan complains was suffered by all foreigners alike. This does not, however, mean that Japan is absolved for her acts of aggression, and the "League" aspect of the case has been kept well and ably to the fore in the *North China Daily News*, the leading journal of Shanghai.

Shanghai.

April 1932.

INDIA : ORDINANCES AND REFORMS

OUR March article described the events leading up to the *dénouement* of last December and showed how the Government were determined to put down the subversive activities of the Congress and, simultaneously, to proceed with the inauguration of the new constitution. We propose in this article to review the more important events of the succeeding period, and to indicate briefly the reactions throughout the country and the progress achieved in the constitutional field. An accurate appreciation, however, in correct perspective, of the constantly changing factors and the many conflicting interests, at such a short range, is no light task. "Delhi," says the proverb, "is a far cry." In many districts in many provinces life once more seems to proceed, with an occasional rude interruption to its serenity, but for the most part little changed, on its immemorial way. To the local officer and the villager—and most of the people of India live in villages—the Government of India appears remote, unreal and of little practical significance in the day-to-day administration of the country. Delhi, on the other hand, during the winter months is the mainspring of the Indian political world, for, just as all roads led to Rome, so all politicians go to Delhi, and perhaps on that account create the illusion that the country is generally on the verge of crisis. Thus the close observer of events may easily, according as he sees things from the view point of the provinces or

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the centre, reach conclusions too optimistic or too gloomy. In the second place, no sharp line of demarcation can be drawn between the political and the constitutional positions : the one reacts upon the other, and no real improvement can take place in the former until the latter shows visible and tangible results. The longer the delay the more difficult becomes the prospect of a peaceful and honourable solution, and the situation is further complicated by the economic depression from which India, in common with most countries in the world, is now suffering.

I. THE GOVERNMENT AND CONGRESS

CONGRESS threw down a challenge last December which no government could ignore and attempted to impose conditions which no government could accept. Their avowed object, since the Government's prompt repudiation of their pretensions, has been the paralysis of the administration regardless of the consequences of their action, either upon the well-being of the State or the personal freedom of its subjects. In taking vigorous measures against them the Government of India has been fighting the battle of constitutionalism against anarchy ; and no government could adopt a different policy consistently with a due sense of its responsibility. In spite, however, of having been worsted in the preliminary and succeeding rounds, the Congress persist in their familiar wrecking tactics. Their general scheme is to maintain excitement at all costs, to keep a ceaseless supply of volunteers for the "martyrdom" of imprisonment, to defy all lawful orders prohibiting meetings and processions, and to exploit the conduct of the executive authorities, by fair means or foul, to their own advantage, whether as a means of inflaming feeling against the Government or for the purpose of propaganda abroad. Since our last article they have concentrated mainly on the celebration of anni-

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versaries—Gandhi Day, North West Frontier Province Day, Independence Day, Martyrs' Day, and National Week—on flying Congress flags on public buildings and on an economic boycott and picketing, in which considerable success, especially in the city of Bombay, has been achieved. Their trump card has been to provoke, if possible, clashes with the magistracy and the police in the hope that some untoward incident—an unfortunate death by firing or the possible injury of women or children—may bring about a violent revulsion of feeling in their favour. On the whole, the celebration of anniversaries has met with little response and has disclosed the inability of the Congress to maintain agitation on a large scale throughout the country generally. Here and there, local embarrassment has been caused—a bonfire of foreign cloth on Independence Day in Bombay attracted excited crowds and led to the burning of a police station ; on Gandhi Day bands of hooligans in Delhi lighted bonfires of foreign cloth in the city, stopped tramcars and assaulted constables. The Frontier Day celebrations passed off without any serious incident. National Week was celebrated from April 6 to 13, and vigorous attempts were made to revive agitation. Apart, however, from organised and violent rowdyism at Allahabad, and, in a lesser degree, at Cawnpore, and some intensification of activity in the direction of picketing and *hartals* in Bombay and Delhi, it aroused little general excitement. The events at Allahabad are noteworthy for the deliberate attempt to win public support by exaggerated accounts of the ill-treatment of Indian ladies, especially Mrs. Motilal Nehru. These statements were shown to be false.

The Government have been vigorous but not vindictive. Their policy has hitherto been successful and, consequently, many parts of India show a return to comparative normality. There has been a welcome response from various quarters and loyalist organisations have been established in the provinces. Governors, commissioners and district

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magistrates have done much by holding *durbars* and public meetings to rally the more stable elements to their side. An influential group of members of the Legislative Assembly and the Council of State has organised an Indian Dominion League on a non-communal and non-sectarian basis, with branches in each province, with the object of attaining Dominion status for India by constitutional means, and by the mobilisation of public opinion against lawlessness and terrorism. The ruling chiefs with one accord have approved of the measures taken by the Government of India, and in loyal communications to the Viceroy have made it plain that they will tolerate in their own States no interference on the part of Congress emissaries. The Government, by seizing the initiative from the start, now have the civil disobedience movement well under control, though any relaxation of effort would bring about a rapid deterioration of the situation. Prosecutions are declining in number, government revenue is coming in satisfactorily, even in Gujarat, the stronghold of Mahatma Gandhi, and resignations of office are almost unknown. The deliberate policy of Congress in fomenting trouble and disaffection in rural areas has met with comparatively little success. In the cities, demonstrations and processions have, for the most part, failed to keep excitement at the desired fever heat, and the numbers attending them are steadily decreasing. The sequestration of Congress funds, the more adequate control of the press, the arrest of the leaders and offenders generally, and the policy of release on tendering apology—a concession of which many are not slow to take advantage—are factors which have, to a large extent, weakened the power of Congress.

Attempts, however, to make capital out of the methods of the police and the alleged ill-treatment of women are frequent. In this way incidents, trivial in themselves, often obtain undue importance from the prominence given to them in the nationalist press, and from the temporary excitement exhibited in the legislatures—

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central and provincial—where baseless charges are not infrequently made against executive officers. The action taken by the police in India is actually less severe than that of the police of Western countries in dealing with riotous mobs. Casualties are comparatively few and the so-called *lathi* charges—*i.e.*, the dispersal of turbulent crowds with cudgels and sometimes with sticks—are only ordered in the last resort and after the police have been stoned, abused and insulted by defiant mobs. The attitude of Congress is indeed hypocritical: for both they and the revolutionary party have been quick to take advantage of the position of their women supporters. The terrorists have deliberately appealed to women to join the movement and to commit murders, while the Congress leaders advise the placing of women and children in the forefront of their demonstrations in order that they may gain a tactical advantage if, in the unavoidable resort to force, injury is caused to such defenceless persons. The real truth is that officers of government have used the special powers conferred on them by the ordinances sparingly and with strict regard to the necessities of the case. The police, when they have been compelled to use force or to fire, have, for the most part, behaved with exemplary moderation, and when dispersing mobs, as far as practicable, detach the women and children and keep them in safety.

In one direction only has the Congress policy obtained any substantial success—and even there it is difficult to estimate its exact measure, owing to the general trade depression. The silent boycott of British goods is one of the main features of their programme, and the slogan “Buy Indian” proves attractive. Secret persuasion and fear of social boycott are too strong for many, and others, though out of sympathy with the methods of Congress, gladly confine their purchases as far as possible, to *Swadeshi* goods. On the other hand, there is growing resentment at the interference with ordinary daily life caused by picketing; and its spectacular extension to railway stations,

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post offices, banks, chemists, shops and petrol stores has not advanced their cause. In the eyes of the Congress a general economic boycott is a very powerful weapon and the "surest means of bringing the British Empire to its knees" in a comparatively short time. The Viceroy in a recent letter to the Western India Liberal Association wrote :

The Government have abundant evidence that those responsible for the present civil disobedience movement are pursuing the same policy as in 1930 and, further, the boycott of British goods is being used not as a political weapon but as part of a general policy to cripple financially the Government of India and Great Britain. It, in fact, is an outstanding feature of the movement, which is designed to subvert the Government and which is prejudicial in the highest degree to the maintenance of law and order. As such it is essentially different in purpose and principle both from the campaign in England in favour of British goods and from a genuine economic industrial movement in India in favour of Indian industries pursued by constitutional means.

In Bombay the effects of this policy are particularly apparent. In addressing the Legislative Council the Governor severely criticised the policy of a section of the mercantile community in supporting the Congress movement. "There are signs," he declared, "that Congress activities are driving business from Bombay to other commercial centres, and when the tide turns, as it must turn, there is danger that we should find Bombay, which has so often claimed to be the first city in India, passed by the returning flood of prosperity." The Congress claim to control and regulate business. The stock exchange was closed altogether for a time. The cloth business has been seriously affected. The Cotton Brokers' Association decided that dealings in cotton should be allowed for the months of July and August in the interests of the agriculturists and producers, and that business should be resumed for three days a week. Congress thereupon issued leaflets to the effect that "Congress permitted" these transactions, and *inter alia* laid down as conditions "that commercial and

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insurance firms and banks which were against the interests of the nation should be boycotted, and that cotton merchants should not take part in the export of gold." They have also tried to enforce restrictions upon the import of foreign watches and clocks and, in view of the commitments of business houses, have graciously been pleased to give them until the end of April to clear. After that date picketing will be imposed. It is indeed deplorable that the mercantile community of Bombay has mixed up politics and business and has tamely submitted to this coercion, which is at least a contributory cause of the diminution of Bombay's trade.

We may now supplement this general account with a brief reference to affairs in the provinces. Conditions are fairly normal in Madras, the Central Provinces, Assam, Bihar and Orissa, and most of the districts of Bombay. There has now been a great improvement in the United Provinces, where the no-rent campaign appears to have been scotched. Attempts may be made to revive it in the slack agricultural months of May and June, but there is little prospect of success.

In the Punjab the civil disobedience movement is well under control, but there has been considerable communal tension due to the Mahomedan's uncertainty about the North West Frontier Province and Kashmir, and their special claims as regards the new constitution. The more extreme Sikhs also—the Akalis—are inclined to throw in their lot with the Congress. The grievances, however, of the Mahomedan subjects of Kashmir are being redressed. Action is being taken on the report of the committee appointed by the Maharajah to enquire into them, and the Kashmir Reform Conference is likely to recommend substantial representation of Mahomedans in a State Assembly.

The outstanding event in the North West Frontier Province has been the inauguration of the province as a governor's province instead of, as hitherto, a local administration directly under the Foreign Department of the Government

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of India. The first elections held in the province were keenly contested. Nowhere in India is the political barometer more liable to rapid change than on the Frontier, and a sudden drop from set fair to stormy, or equally a sudden rise in the opposite direction is not an uncommon feature. There is thus need for constant vigilance, and prophecy is idle, but there is a widespread expectation that the people of the province will be gratified and Moslem feeling in India as a whole considerably relieved by this prompt carrying into practice of the recommendations of the Round Table Conference—the more so as the new constitution is only a brief novitiate. This province will also participate in any measures of reform which may be extended to other governors' provinces. The situation has had its dangers. The elections and the release from prison of a number of Red Shirts led to some recrudescence of Red Shirt activity. At Charsadda and Mardan voters were intimidated, loyal people were assaulted, attempts at obstruction took place and bands of Red Shirts had on several occasions to be dispersed by force. The tribal area too has given ground for some uneasiness and there is no doubt that Congress and Red Shirt emissaries have been inciting the tribesmen to open rebellion: at one time Mohmand intervention seemed likely, but wiser counsels prevailed following upon aerial demonstrations. At present this particular danger has passed and the omens are favourable. The operation of the Frontier Crimes Regulation has now been suspended as an experimental measure for one year.

In Bengal the civil disobedience movement proper is making no headway—and, indeed, is on the down grade. But it is impossible to speak with such hopefulness about terrorism—the special feature of this province. The dastardly attempt on the life of Sir Stanley Jackson at the Convocation of the Calcutta University aroused widespread indignation, and the terrorist movement has been condemned in unequivocal terms both in the Legislative Assembly and the Bengal Council. But acts of terrorism

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continue. The poison is extending to the schools, and the outrages planned by the revolutionary party are not confined to Bengal. Among recent crimes which appear to be attributable to revolutionary inspiration may be mentioned the murder of a sub-inspector of police in Bihar and Orissa, a post office robbery in Calcutta, attempts at train robberies, and the murder of a mail sorter on a passenger train near Allahabad carrying two lakhs of rupees of railway money.* The Government of India, with a view to strengthening the hands of the Bengal Government, have passed an Act supplementing the Bengal Criminal Law Amendment Act which permits the arrest and detention without trial in Bengal of persons suspected of participation in revolutionary crime. The supplementary Act provides that such persons may be detained in prisons outside the limits of Bengal, and it is hoped that their removal will have a salutary effect. But terrorism remains the most difficult and the most important problem confronting the new Governor, Sir John Anderson, and on its successful solution in large measure depends the future prosperity of the province.

It is, then, apparent that, with the exception of the boycott, which may, perhaps, defeat itself through the natural operation of economic laws, the wrecking tactics of Congress have been unsuccessful. Yet there is no sign of any readiness on their part to admit defeat or to resume co-operation with the constitutionalists. The reason for this intransigence would appear to be the belief that their movement is merely being driven underground by the policy of Government and that their real strength is not seriously impaired. Admittedly the Hindu community as a whole are not hostile to their political programme, as distinct from the methods they have now adopted. Indeed, his dislike of emergency legislation and ordinances, and his failure to see any outward sign of progress in the reforms, predisposes the Hiadu

* On April 30 Mr. Douglas, the collector at Midnapore, was shot by two Bengali youths ; it will be remembered that his predecessor, Mr. Peddie, was also murdered.

The Government and Congress

to sympathise tacitly with the Congress, even when he does not go as far as open support. The Congress organisation is by no means broken and some of the wealthiest members of the Hindu community supply generous contributions. Moreover, the Congress know that the ordinances will soon expire and hope that this will give them a fresh lease of life, for when they expire a certain amount of political tension is inevitable—and this will supply an atmosphere favourable to the prosecution of their plans. They have accordingly determined to hold their next session at the end of this month at Delhi as a demonstration of strength, despite the prohibition of Government and the proclamation of the reception committee as an illegal association. There is no intention of considering the possibility of resuming co-operation, for the acting president of the day has declared the object to be once more to proclaim complete independence as the goal of Congress, to endorse the resolution relating to civil disobedience passed at the last meeting of the Working Committee, and to reaffirm that Mahatma Gandhi is their sole representative and spokesman. Mrs. Naidu, the acting president, has been served with a notice not to leave Bombay and has been sentenced to a year's imprisonment for disobeying that order. Pandit Madan Mohan Malaviya, who has been active in urging Congress to hold this session in spite of the Government's prohibition, and who is the acting president elect, has been arrested for defiance of orders served upon him, and so have *jathas* of Congress supporters from the Punjab and many local Congress leaders in Delhi.* In so far as this advertised defiance of Government orders is aimed at kindling the dying spark of enthusiasm for the active prosecution of civil disobedience, it seems unlikely to have much success; but if Government were to declare the Congress as a whole an illegal association (a quite impracticable course) the result would be an

* An attempt was made to hold the Congress in Delhi, but proved futile, as many would-be participants were arrested on their arrival, and all demonstrations were broken up by the police.

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immediate swing over to the side of Congress of many persons who are now opposed to its present methods or are neutral.

The extent to which political sympathy is given to Congress is well illustrated by the line taken in the Legislative Assembly during the spring session by a number of members of the Nationalist and Independent parties. Though the proceedings of the Assembly were dull, protracted and devoid of incident, they afford a fairly accurate index of important phases of Indian public opinion. Party differences and intrigues and the bad parliamentary tactics of the Opposition enabled the Government, with the help of their nominated members, to secure a majority on practically all important issues, but this should not obscure the importance of the views expressed by many Hindu and a few Moslem members about the treatment of the Congress. Four definite points were made—and they have also been made by individuals and associations outside the legislature—namely, (1) that government by ordinance is most undesirable and at best a temporary expedient, (2) that while terrorism deserves the severest condemnation, the present policy of repression is inconsistent with the avowed policy of progress, (3) that the ordinances being limited in duration, the real question is what action will Government take on their expiry, and (4) that no discussion on constitutional reforms can be satisfactory without the participation of the best organised and most united political party in India—the Congress—or, in other words, as long as Mahatma Gandhi is in jail. The short answer to these points is that everyone dislikes ordinances, but when Congress deliberately interferes with the freedom of the people, menaces their lives and property, and substitutes direct action for constitutional political activities, Government must adopt whatever measures are necessary to suppress it. The history of last year, declared the Leader of the House, was in the main a record of patience and forbearance on the part of the Government, who did all in their power to secure the

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representation of Congress at the Round Table Conference, and their co-operation in framing the new constitution of India. Though Congress preferred the barren way of non-co-operation, the Government have maintained their determination to carry out the policy laid down by His Majesty's Government for India's constitutional development. The ending of the present deadlock is thus in the hands of Congress.

II. THE REFORMS

A N acceptable and early solution of the constitutional issue will mark a definite turning point in the political struggle. It might detach the right wing of Congress and should win over the neutrals and consolidate liberal opinion. But there is bound to be an irreconcilable remnant, as in Ireland, which will, no doubt, take heart from the recent utterances of Mr. de Valera. In the past three months, suspicion and distrust have been general owing to the delay in the translation of abstract principles into concrete realities. The opinion was widely held that these interminable discussions are merely a dodge to postpone reforms. After the first flush of enthusiasm for federation, the Princes seemed to be repenting of their earlier acquiescence. A strong body of opinion amongst them was definitely opposed to it—and this fact in itself aroused speculation as to future constitutional development should the principle of federation be abandoned. Many politicians in British India are not enamoured of it, for they apprehend that through the constitution of the Federal Assembly it will operate injuriously to the interests of the provinces. In the Assembly there were two schools of thought; one group believed that the immediate introduction of provincial autonomy with responsibility at the centre should be conceded, since federation was an extremely complicated business, and since there was danger

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of the indefinite postponement of provincial autonomy and central responsibility if they were to be contingent on the prior determination of the details of federation. On the other hand, the demand was made that the Government should indicate what line they would take if the principle of federation were shelved—would they go back to the Simon Report, with the modifications suggested by the Government of India in their despatch on that report? The position was further complicated by the attitude of the Moslems, who have been in sullen mood. An analysis of their feeling seems to show that a very small section supports Congress; that a second and more powerful section, equally distrustful of the Congress and of the British, is in favour of direct action, and that the third section, also powerful, with whom Maulana Shaukat Ali has definitely thrown in his lot since his return to India, desires an Anglo-Moslem alliance.

The executive committee of the Bihar and Orissa Moslem Conference passed a resolution that as the Government had not yet accepted the Moslem demands and as the communal problem is still unsolved, the All-India Moslem Conference about to meet at Lahore should declare a complete boycott of the Round Table Conference Committees and draw up a programme of direct action for the achievement of Moslem demands. Though the better Moslem opinion was opposed to this policy, it had considerable support, and the Lahore Conference might have precipitated a crisis. Fortunately, a decision was postponed, because the British Government had just undertaken to decide the communal issue. Resolutions were, however, passed declaring that if the Government's decision on the communal question was not announced before the end of June, a meeting of the executive board should then be held with a view to launching a programme of direct action, and that, as the scheme of federation propounded by the Round Table Conference was likely to involve considerable delay, the immediate and simultaneous introduction in all the provinces of British India

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of provincial autonomy should take place while the details of the federation scheme were being explored and worked out. Though the announcement of His Majesty's Government, to which we shall refer shortly, was responsible for the more moderate tone of the resolutions, there was no disposition to compromise with other communities. Indeed, the Moslem demands put forward at this conference go beyond the fourteen points which previously embodied their requirements, and the proceedings of the conference evoked a vigorous protest from the Hindu members of the central legislature, who stand firm for joint electorates. They hold the Prime Minister to his declaration in the House of Commons in January, 1931, when he condemned a communal electorate and all its implications, and they recall the fact that the British Government and the Government of India are already bound by minorities guarantees and treaties as members of the League of Nations.

Amongst the depressed classes a split has now occurred on this question of joint or separate electorates. The Working Committee of the Depressed Classes Association passed resolutions against the group system of voting and election, and in favour of joint electorates with reservation of seats on a population basis. This resolution appears to be due to a pact between Mr. Rajah and the Hindu Mahasabha, and it has been approved by the Hindu and Sikh members of the central legislature and other Hindu leaders. Amongst the depressed classes themselves, feeling is strongly divided, many contesting the claim of Mr. Rajah to represent them and offering allegiance to Dr. Ambedkar, whose insistence on separate electorates is as strong as ever. This pact with the Mahasabha means in reality an accession of strength to the Hindus, and may have repercussions on other communities also.

Thus, what with general suspicion and distrust, communal bickerings, electoral controversy, Moslem sullenness, division amongst the depressed classes, Congress steadfastly non-co-operating and the Princes uncertain about

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federation, the constitutional sky was overcast and the outlook gloomy. But the clouds are slowly rolling away, and there are welcome signs of better weather. In the first place, the decision of His Majesty's Government to settle the communal question has had an excellent effect. The Consultative Committee have before them for examination, in addition to this question, a number of problems ranging over a very wide field, such as fundamental rights, the allocation of functions as federal, central or provincial, the division of legislative powers between the centre and the provinces, the composition, strength and procedure of the federal legislature, defence, financial safeguards, provincial constitutions. On the communal question, which was discussed informally, the members reported that they could reach no agreement and recommended that His Majesty's Government should be asked to decide it as early as possible. His Majesty's Government have since declared that they realise the responsibilities involved in this undertaking and will not fail to discharge them. They are engaged in a careful examination of the difficult and controversial issues involved, and it is their firm intention that there shall be no avoidable delay. This announcement has been well received. The Hindu, Moslem and Sikh protagonists are now engaged in mutual recriminations, each determined on no compromise, and it is too much to expect that the British Government's decision will be acceptable to all parties concerned. But until that announcement is made—and it will be the occasion for another outburst—matters must remain in suspense. The creation of a governor's province in the North West Frontier Province and the developments in Kashmir have undoubtedly had a steady influence on the Moslem community.

The situation has been further clarified by the unanimous decision of the Chamber of Princes to join an all-India federation provided that the Crown will accept responsibility for securing guarantees on the following points:

- (1) that necessary safeguards will be embodied in the con-

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stitution ; (2) that under the constitution their rights under treaties, sanads, or engagements will remain inviolate and inviolable ; and (3) that the sovereignty and internal independence of the States will remain intact and be preserved and fully respected, and that the obligations of the Crown to the States will remain unaltered. No agreement has yet been reached on the numerical representation of the States in the upper chamber, or even as to the expediency of establishing a bicameral federal legislature. These, however, are minor points compared with the bigger question of the unanimity that the Chamber has secured. Lord Willingdon in his recent address to the Princes made it clear that there would be no tampering with their treaty rights, that the Crown would continue to discharge its obligations to the States ; in short, that paramountcy would remain paramount. The Princes' fears, therefore, are largely discounted, provided they in their turn as zealously discharge their obligations to the Crown and to their own subjects. As a result of this decision, the constitutional outlook is distinctly brighter.

Thirdly, much of the spade work of the Committees—States, Federal Finance and Franchise, has been completed and most of the material necessary for constructing the constitutional edifice has been collected. The reports of these Committees will, in due course, be submitted to the Consultative Committee. That Committee will then reassemble in May, and complete its work. The Franchise Committee has been faced with an exceptionally difficult task in elaborating the frame-work of future electorates. As Lord Lothian has pointed out, if the democratic system is to be successful, it must produce a legislature representative of all classes and sections of the people, able to maintain a stable executive in office and containing sufficient men and women of experience and ability not only to manage efficiently the various Departments of State but to provide an Opposition supplying a competent alternative to the Government policy. In a recent speech he foreshadowed

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a unanimous report on the more fundamental issues. In India, as a rule, less importance is attached to inconspicuous spade work of this character than to spectacular and often platitudinous generalisations. But the fact that concrete problems are being tackled in a practical spirit, and that they must be solved before the constitution can be cast into final shape, is now more generally appreciated, and public men are abandoning their earlier suspicions of dilatory tactics. Thus steady progress is being made, and the position is more encouraging than seemed possible only a few weeks ago. But it cannot be too strongly emphasised that the need of the moment is prompt decision on outstanding problems and the speedy translation into practice of the undertakings that have been given.

III. THE BUDGET, OTTAWA AND OTHER MATTERS

NO account of Indian affairs during the period of our review would be complete without some brief reference to the more important proceedings of the legislature. In his budget speech the Finance Member reviewed the financial and economic position of the country. Trade depression and internal political troubles, of course, had seriously affected his calculations, and the deficit was greater and the receipts lower than he had anticipated. But the budget will be balanced by April, 1933, and the present financial year, 1932-33, is estimated to produce a surplus of about two crores. The financial situation is, in many respects, encouraging. As the Finance Member put it :—

We have in the past year ridden a storm which might well have ruined us, but we have emerged from it stronger than before. We have overhauled our expenditure and reduced it to a level which should leave us a margin of revenue when any economic recovery begins, and at least substantially ease the financial problems at the start of the new constitution. Difficulties there are which still

The Budget, Ottawa and other Matter's

remain to be overcome and tasks to be accomplished. If the Indian public would co-operate in a common effort with Government, this could be done more surely and more easily, but we are determined that it shall be done.

Drastic reductions both in military and civil expenditure have been effected largely with the assistance of retrenchment committees of the Assembly, but taxation, especially income-tax and customs duty, is now, in the opinion of many, at so high a level as to bring in diminishing returns. The pay of the public services has been reduced by 10 per cent. and the high officers of State have voluntarily surrendered a substantial proportion of their emoluments.

The railway budget is, of course, distinct from the general budget, and lack of space makes it possible only to mention the deficit of 947 lakhs, which is anticipated for 1931-32, instead of the usual contribution of 5 crores to the government revenue. In the course of the budget debates the whole field of the administration was reviewed. One of the most interesting demands voted was the subvention of one crore to the North West Frontier Province on its elevation to the status of a governor's province, as it has never been—and cannot be—self-supporting. Provincial patriotism always looms large in India, and it is not, therefore, surprising that much interest was shown in the proposals for the creation of an Orissa province and the separation of Sind from Bombay. The spirit seems infectious, and demands have now been put forward for the establishment of a separate province of Oudh. On the question of the separation of Burma the feeling in the Assembly was that the wishes of the people of Burma were the main consideration, but difficult financial questions are involved. The Finance Member advised, and the House accepted his advice, that both sides should approach them in a spirit of give-and-take with the object of getting a fair deal for the Indian taxpayer. An impartial tribunal would adjudge the question and members of the Stand-

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ing Finance Committee would be associated with the inquiry.

The very important announcement that the Government of India would be represented at the Ottawa Conference gave rise to some suspicion in the Assembly that this was a device to commit the Government of India to acceptance of the principle of imperial preference, a policy to which many Indian politicians are opposed. The main item on the agenda of the Conference is, of course, the discussion of the policy of trade agreements between the different countries of the Empire, and the Government of India have been invited in particular to consider whether, having regard to the new tariff policy of His Majesty's Government in the United Kingdom, Great Britain and India should enter into a tariff agreement embodying a reciprocal preferential regime so designed as to benefit the trade of both countries. The Assembly was satisfied with an assurance that, if the conclusion of a trade agreement is recommended, any changes in the tariff which it may involve will be duly placed before the legislature for its approval, the Government having no desire to effect any such change unless the legislature is satisfied that it is in the interests of India.

Another important announcement related to the position of Indians in South Africa, and the results of the recent mission from India led by Sir Fazl-i-Husain and Sir Geoffrey Corbett. Want of space prohibits any mention of details, but the statement has been well received in the Indian press and by Mr. C. F. Andrews. The programme of legislation was heavy and some contentious measures were brought forward, but two only, other than the Bengal Supplementary Bill to which we have already alluded, need be mentioned—the Sugar Industries Protection Bill and the Indian Air Force Bill. The former is important as showing the strong feeling of Indian public men in favour of the policy of protection. The passage of this Bill drew from all quarters of the Assembly well merited tributes to Sir George Rainy, the Leader of the House, who sponsored the

The Budget, Ottawa and other Matters

measure on behalf of Government. The significance of the Indian Air Force Bill was not fully realised by the majority of the non-official members, for it seemed to be no more than a collection of technical and disciplinary sections. The importance of the measure is, of course, that it creates an air force for India. Indians are not eligible for admission to the Royal Air Force and the establishment of their own air force marks a big step forward in the problem of Indian defence and the Indianisation of the Indian military machine.

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April 15, 1932.

GREAT BRITAIN: THE PROGRESS OF PROTECTION

I. TARIFF AND QUOTA

THE tariff continues to be the outstanding issue of British politics. On February 29 the Import Duties Bill became law, in substantially the same form as when it was first introduced. One or two changes were made in the "free list," and it was this part of the Bill which gave rise to the most interesting discussions at the committee stage. A group of Conservative Members of Parliament moved to add lead and zinc to the list, on the ground that advantage was likely to be taken of the duty by the combine that virtually controls the Empire supply of those metals to raise the price against the British consumer; they were pacified, however, by the Chancellor's assurance that the matter would be brought before the tariff advisory committee at the earliest possible date. On the other hand, 44 Conservatives voted against the Government on an unofficial and unsuccessful amendment to remove meat and bacon from the list. The question of taxes on food is one which unites perhaps more firmly than any other the Liberal and Labour parties in the present House. Two of the largest votes yet recorded against the Government—though only 71 and 72 at that—were mustered first on an amendment in committee to exempt from the 10 per cent. duty all foodstuffs for human consumption, and second on a motion to omit wheat and meat from the operation of an amendment, introduced later as part of the Finance Bill, authorising the removal of articles from the free list on the recommendation of the Advisory Committee. On this issue a number even of the Simon Liberals, who have accepted the necessity of protection in some form, voted against the Government.

Tariff and Quota

The authorisation to differ has been fully exercised by Liberals pledged to general support of the present Government. In the third reading debate, Mr. Isaac Foot, Secretary for Mines, made a furious onslaught on the Bill, protesting that it would "raise the cost of living to the poorest of our people," add to the costs of production and increase unemployment, and that it looked in the wrong direction, that of self-sufficiency instead of international co-operation. By contrast, Mr. Chamberlain, in his final speech, declared his belief that the historian of this period "will applaud and admire the courage and the foresight of this country in shaking herself free from her past troubles, and in taking up a new career hand in hand with the sister countries of the Empire." In the House of Lords, Viscount Snowden uttered a vigorous and comprehensive attack on the measure.

Is protection (he asked) serving the interests of protected countries better than free trade is serving the commercial interests of this country? There can be only one answer given to that question by hard and irrefutable facts. . . . This Bill will pass. As Mr. Chamberlain said, arguments will then pass into facts, and that, my Lords, is our satisfaction in this our temporary defeat. Facts and experience will finally settle this question. Free trade is not dead. There are far more free traders in the country than there were three months ago.

Whether that is so or not, free traders who voted "National" in the general election doubt Lord Snowden's powers of political prophecy, for in a broadcast address during the election campaign he assured "anxious Liberals" that there was no danger of general protection.

The Liberal and Labour press is making a good deal of play with the pre-election pledges of members of the Government, especially those relating to food duties. Partly through the historical tradition of the radical parties, partly on more rational grounds, a tax on wheat goes specially against the grain for them. Surprise was felt, therefore, at the support given by Liberal Ministers, who had differed from their colleagues over the Tariff Bill, to the Bill

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 establishing a quota for home-grown wheat, which was introduced immediately afterwards ; Sir Herbert Samuel has revealed, however, that their consent had been obtained before the "agreement to differ" on the broader issue was concluded. It is true that the Wheat Act does not subject the grain to an ordinary import duty, but it provides for a levy on all wheaten flour in order to grant a guaranteed price of 45s. a quarter to British growers of wheat ; hence it is bound to operate in some sense like a protective tariff. The subsidy is only to be given on a limited standard home production, and receipts and expenses are to balance, the whole scheme being administered by an independent wheat commission appointed by the Minister of Agriculture to represent the interests concerned. It has been criticised on the ground that, while protests are constantly heard about the usurpation of judicial and legislative functions by irresponsible officials, the fixation and collection of a tax has been entrusted to a body which is only remotely and indirectly responsible to the electorate. On the basis of present prices, the sum which will have to be raised annually by the levy is reckoned at roughly £6,000,000. This is considered by opponents of the measure, among whom Lord Astor has been one of the most prominent, as an extravagant amount to spend upon a bare 4 per cent. (by value of output) of our agricultural industry—a section of it, moreover, which is indifferently suited to our climate. Supporters of the quota, on the other hand, declare that wheat cannot be considered by itself, but should be treated as a "key" crop in a vital rotation. As, however, the sugar beet subsidy is to be continued—at least while a commission is investigating the case for and against it—at an estimated direct cost in 1932-33 of £2,400,000, which together with a difference between customs and excise duties will probably make the total assistance over £5,000,000, there can be little doubt that so far the arable farmer, especially in the eastern counties, has been particularly favoured.

The Advisory Committee set up under the Import

Tariff and Quota

Duties Act was forced to hurry by the prospective expiry of the Abnormal Importations duties,* which were imposed for six months only. The Committee's first report was published on April 20, the recommendations being brought into force by Treasury order on the following day. Their statutory terms of reference authorised them to propose additional duties on goods of any class or description not on the free list, which, in their opinion, were "either articles of luxury or articles of a kind which are being produced, or are likely within a reasonable time to be produced, in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption"; they were further directed to "have regard to the advisability in the national interest of restricting imports into the United Kingdom and the interests generally of trade and industry in the United Kingdom." The Committee have accepted the principle of protection implied in those instructions, in recommending a series of additional duties—in most cases 10 per cent., making 20 per cent. in all—on a wide range of articles. Their report contains no explanation of the objects of the duties or the reasons why the Committee held them to be necessary; presumably their view was that those matters had already been determined in the passage of the Act under which they were appointed. "Parliament," they write, "has by the Import Duties Act decided to make use of the instrument of a tariff for the assistance of British trade and industry, and the recommendations we submit will enable effective use to be made of it forthwith." The list of articles subject to the additional duties includes certain luxury foods; pottery and glass; furniture and hollow-ware; iron and steel products such as tubes, springs, wire, screws, bolts and nuts; cutlery, electrical goods; machinery (with the qualification that licences may be issued for the importation, free of additional duty, of items of machinery which cannot yet be produced economically in Great Britain); manufactures of timber, of rubber and of non-ferrous metals; textile manufactures

* See THE ROUND TABLE, No. 86, March, 1932, p. 347.

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and clothing (including boots); soap, dressed leather, paper; cycles, arms and ammunition; cosmetics and jewellery; toys and games. The iron and steel industry, as was expected, has received special consideration.

We are satisfied (wrote the Committee) that the maintenance of a prosperous iron and steel industry in the highest degree of efficiency is essential to the economic progress of this country, while from the point of view of national security it must still be regarded as vital. We accept therefore the preliminary proposition that this industry shall be adequately protected, and protected at once.

As an interim measure, therefore, pending further investigation, they recommended the imposition of a total import duty of $33\frac{1}{3}$ per cent. on spiegeleisen and ferro-manganese and on a wide range of iron and steel semi-manufactures, including ingots, blooms and billets, sheets, bars, angles, forgings, castings, girders, hoops, plates and sheets.

How far the proportions of our foreign trade may be altered by the protective character of the new duties cannot, of course, be foreseen. *The Economist*,* however, has analysed the imports of 1930 according to the duties to which they would have been subject under the new dispensation, as follows :

Subject to :—	IMPORTS IN 1930		
	From Foreign Countries	From British Countries	Total
	£'000	£'000	£'000
Free list	198,328	136,719	335,047
Old revenue duties† ..	116,099	55,663	171,762
Old protective duties ..	12,040	1,036	13,076
New duties	409,303	107,485‡	516,788
 Total	 735,770	 300,903	 1,036,673

† Including tea.

‡ Exempt from duty.

It will be seen that £594,141,000 of the imports, or 57 per cent., would have been subject to some duty or other. If, among the new duties, rates of 20 per cent. or over are

* April 30, 1932.

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termed protective, then £140,535,000 would have come within the protective tariff, including nearly 70 per cent. of imported manufactures. The depreciation of the pound adds a further, though probably a diminishing, measure of protection on all imports from gold standard countries.

In recommending the new duties to the House of Commons on May 4, Mr. Chamberlain paid particular attention to the question of industrial efficiency.

We have to bear in mind (he said), in trying to use our duties as a means of enabling and encouraging British industry to make itself more efficient, that if we are going to try to lay down the conditions of efficiency without which we will not grant a tariff, we may be withholding from the industry the very condition which is essential to give it the chance of reorganising itself. . . . We do not intend that a tariff shall be allowed to shelter inefficiency. . . . The Committee, no less than the Government, fully realise the danger that an industry might, if given sufficient protection, be willing to sit down under the shelter of that protection and fail to take the steps for reorganisation and re-equipment which perhaps were recognised to be necessary.

The Chancellor went on to say that after the Ottawa Conference the Government would be free to discuss commercial treaties with foreign countries which might involve the lowering of the duties in this country in return for corresponding concessions.

The imposition of the additional duties naturally met with a far from unanimous reception. Free trade Members of Parliament denounced them as "a violation of all the promises made at the general election." The Director of the National Union of Manufacturers welcomed the duties, declaring that "on the whole they look like a very sound, cautious beginning, which will not please everyone but which lay the foundation for an all-British national tariff." There were, of course, numbers of complaints, both from parliamentary and from industrial quarters, that the duties were not high enough. The wool textile manufacturers especially lamented that after having a 50 per cent. tariff

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 under the Abnormal Importations Act, they were being fobbed off with a mere 20 per cent. ; but a delegation from the trade got no satisfaction out of the Committee, who explicitly refused to regard the rate of duty imposed under the Abnormal Importations Act as a precedent. The Advisory Committee is now engaged in considering applications from industries and from interested individuals for the revision of the duties. It will be instructive to watch this method of tariff-making in practice. So far, it appears to have caused a certain amount of disappointment.

Tariff adjustment (said Mr. Baldwin in a speech on July 17, 1931) must be taken away from ordinary politics. By this I mean that government action must be founded on full and impartial information—information available not only to the Government but to every citizen of the country who cares to study it, so that it is not being done in secret.

It is true, indeed, that the Advisory Committee has withdrawn the tariff from the sphere of parliamentary lobbying (as a group of M.P.'s from the wool textile areas found when they were politely referred by the President of the Board of Trade to the Committee, and then told in effect that they had no *locus standi*) ; but the "full and impartial information available to every citizen" has not been so much in evidence. The Committee were so much pressed for time that they had "to proceed on the basis of the information which has been collected by the Board of Trade in recent years, supplemented by such enquiries of a general character "as they had been able to make in the time available." Conservative Members of Parliament have been heard to complain that this was a process which Parliament could very well perform by itself without delivering one of its most important functions, that of tax-raising, into the hands of an irresponsible triumvirate.

A further important issue was raised in connection with the silk industry. The Advisory Committee was debarred from recommending a duty on silk or artificial silk because these commodities were already subject to the revenue

The Liberal Reaction

duties imposed by Mr. Churchill. The Chancellor of the Exchequer, therefore, realising that the lapse of the Abnormal Importations duties, by which the industry had benefited, gave it a real grievance, proposed to invite the Advisory Committee to submit recommendations for its protection, although their conclusions would have to be implemented by a Finance Bill and not merely by Treasury order; and meanwhile to impose "rough-and-ready" provisional duties, equivalent in most cases to an additional 10 per cent. The voluntary use of the Advisory Committee outside its statutory scope, and the imposition of duties pending its recommendations, form a highly interesting development.

II. THE LIBERAL REACTION

THE new tariff has, of course, roused bitter opposition among the Liberals. In the last three months there has been an obvious movement of the official Liberal party away from the National Government, although the party whips still work in with the government organisation. The executive committee of the National Liberal Federation was particularly vehement.

Since the election (runs a passage in the committee's annual report) it has become apparent that all the understandings and pledges which led millions of Liberals to vote Conservative have gone for nothing, in face of the pressure from an overwhelming Conservative majority; and thus, without any definite appeal to the electorate on this subject, free trade has been destroyed by a Government which the Liberal party helped to establish, and which includes Liberal leaders.

The position of the free trade Ministers in the Cabinet has, in fact, been very strongly criticised by their supporters in the country. The Liberal press has been almost unanimous in demanding their resignation. The executive of the London Liberal Federation, representing about 80 constituencies, decided as long ago as the middle of March that support for the National Government was no

Great Britain : The Progress of Protection longer possible. Similar expressions of opinion came from various other parts of the country, and at the annual conference of the National Liberal Federation several delegations demanded the withdrawal of Liberal Ministers from the Government ; a more cautious resolution, however, was accepted ; the Federation, it ran,

hopes that it will soon be possible for a re-united Liberal party to fight independently for free trade and other Liberal causes without entanglement. Meanwhile it declares emphatically the independence of the Liberal party as a whole and its freedom from any obligation to support the policy of the present Government.

The Ministers concerned have naturally been at pains to defend their position.

It may be (said Sir Herbert Samuel on April 26) that events may occur which would compel us to dissociate ourselves from this Administration, but so long as we are substantially of one mind on matters relating to India, Ireland, disarmament, reparations, currency, and so long as we have freedom to express our opposition by speech and vote to the fiscal policy with which we disagree, in our view there is no present justification for that course.

These circumstances powerfully favoured Mr. Lloyd George's "come-back" after his illness. On March 16 he made a speech at the Junior Liberal Club, full of racy quips and vigorously denouncing the National Government, which he called "a naked sham—or if not a naked sham a sham with the meanest of loin-cloths." This speech was enthusiastically greeted by the Liberal press, and, with his other utterances, won for Mr. Lloyd George more popularity among the ranks of the Liberals than he has enjoyed, probably, since the war, but thenceforward he has kept very much in the background and has scarcely ever appeared at Westminster.

III. LABOUR AND THE MEANS TEST

THE attitude of the Labour party on free trade and protection has not been quite so unequivocal. The Labour members of the Government are now, of course,

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completely estranged from their former colleagues in Opposition, but it is significant that Mr. MacDonald wrote recently that "on this matter (protection) the Labour movement has been divided for a long time." It is open knowledge that the late Labour Government toyed for a while with the plan of a 10 per cent. "revenue" tariff. The Independent Labour party and the left wing generally are inclined to regard the whole fiscal issue as a minor incident of the decline and fall of capitalism. Less revolutionary leaders, like Mr. Lansbury and Mr. Ernest Bevin, have expressed themselves in a similar sense.

I am not sorry (declared the latter) that the country is trying tariffs, because this generation has seen unemployment grow under free trade, and it will find that tariffs cannot cure unemployment, with the result that the country will be driven to the alternative of socialism at the next election.

Nevertheless there is a strong tradition of free trade behind the Labour movement, especially in its co-operative affiliations, and its organ, the *Daily Herald* (which now has a circulation of over a million and a half) has consistently opposed recent protectionist measures.

Hence a working alliance on the basis of free trade between the Liberals and the more moderate sections of the Labour party is not out of the question, but the possibility of its electoral success is, of course, a matter only for the most distant speculation. It is, however, at least clear that there are important elements which have not accepted the tariff as a *fait accompli* which it is futile to seek to undo. This political uncertainty may be unfortunate for industry, but it can hardly be avoided in a country with the history and with the economic structure of our own.

Much of the debate (said Mr. Baldwin in the House of Commons on February 9) has run on the difference between the permanent and the temporary nature of a tariff. There is no such thing as permanence in politics. Whatever one Parliament does it is in the power of another Parliament to confirm, to increase, to diminish, or to abolish.

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But it is far too early to forecast the future of the fiscal controversy in Great Britain. The experience of the Dominions suggests that the trade unions may come to support tariffs as a cherished vested interest, and the Labour party will certainly continue to rely on the trade unions for a large part of its support.

At present the party and the unions are largely pre-occupied with the question of the unemployment benefit "means test." This was applied, it will be remembered, by the first National Government in connection with applications for "transitional" benefit (*i.e.*, the dole proper, granted for a limited period after the applicant's insurance rights have expired). The administration of the test was entrusted to the local Public Assistance Committees, and it is the variation between one area and another that has given rise to the greater part of the complaint. Some of the more glaring discrepancies are shown in the following list, which relates to the period November 12 to January 23.

	Cases deter- mined.	Full rates allowed.	Partial rates allowed.	No benefit allowed.
		Per cent.	Per cent.	Per cent.
Great Britain ..	1,884,074	50	35	15
London ..	99,683	55	19	26
Lancashire (to Febru- ary 3) ..	89,239	23	33	44
Yorkshire, West Rid- ing ..	66,893	64	24	12
Glamorgan (to Febru- ary 3) ..	43,109	93	4	3

These figures must be treated with some caution. The fact that in Lancashire 44 per cent. of claimants received no benefit, whereas in County Glamorgan the ratio was 3 per cent., does not necessarily imply that the administration in Lancashire has been harsh and in Glamorgan lavish; it may mean—and to some extent it certainly does mean—that in the textile areas, where short-time has to a large

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extent taken the place of continuous unemployment and where it is customary for wives and daughters to go to work, the family income is enough to go round far more often than in the Welsh coal villages, where there are neither jobs for women nor chances of alternative employment for the men, numbers of whom have not had more than a few weeks' work in the past five or six years. Nevertheless there is undoubtedly a great deal of variation between one locality and another in the way in which the law is administered, and the Ministry of Labour persuaded the Glamorgan Public Assistance Committee to withdraw their over-indulgent rules. There seems to be a case—as even the *Morning Post* writes—for the Ministry of Labour (rather than the Ministry of Health, which supervises the poor law) to be given charge of the administration and to draw up a plan of allowances, settling what means shall be taken into consideration and what shall be ignored. It has also been suggested that the problem should be attacked from the other end, to wit, that the administration of the poor law, which was transferred five years ago from local boards of guardians to county councils, should be still further centralised.

There remains the question of what resources should be taken into account in assessing a man's qualification for benefit. There are three groups of beneficiaries who could protest undue hardship; namely, those who, having contributed higher trade union fees than their fellows, find that their unemployment pay from the union is taken into account in considering their claim to benefit; those who are forced to dispose of capital, such as savings bank balances or their own houses, while their thrifless neighbours receive the full allowance; and those whose benefit is reduced on account of disability pensions. On all these points, it appears from the debate in the House recently, a more generous policy would probably be supported by members of all parties. There will, however, always be anomalies in one direction or another. A family means test, while it

Great Britain: The Progress of Protection certainly cuts down the cost of a very expensive service and confines to the needy the grant of public moneys, is bound in some measure to penalise the thrifty and to make unemployed Lears profit rather by the Gonerils who forsake them than by the Cordelias who assist in their support.

The operation of the means test and of the anomalies regulations has naturally affected the live register of unemployment, since some of those deprived of benefit have ceased to register. The Ministry of Labour reckons that on this account 157,000 persons (over half of them married women) fell off the register, without obtaining employment, between October and March. Including 14,000 who fell off for other reasons, the unemployment figure of 2,567,000 on March 21 would thus be raised to 2,738,000 in order to make it comparable with the figure of 2,580,000 recorded a year beforehand.* Some attempt has been made by Labour spokesmen to associate the number of those deprived of unemployment pay with the increase of 154,000 that took place, during the year ended March 31 last, in the number of persons in receipt of poor law relief. But unless the means test were being very ineptly administered there could not be any substantial connection between the two. Labour policy appears to have hardened somewhat on the means test. For a while the party leaders were inclined to accept a test as necessary in principle, while denouncing its present administration, but in the debate in the House of Commons on the Bill to extend the power to make "transitional" payments for another year, Mr. Lawson, who was one of the protagonists on the Labour side, openly declared that

As far as we are concerned, we are for ending the means test, root and branch, without equivocation or qualification, and he has not since been repudiated by the leaders of his

* The crude unemployment figure on April 25 was 2,652,000; if we add 171,000 for those who had ceased to register though not in employment, the total becomes 2,823,000, which is 303,000 more than the number registered on April 27, 1931. Most of the increase in the month of April was incurred in the coal-mining industry.

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party. Moreover, the Trades Union Congress General Council, which has always been opposed to any means test, has submitted to the Royal Commission on Unemployment Insurance a plan for abolishing the test and for raising the necessary funds by a levy on all incomes.

IV. THE BUDGET

HOW men of public standing can contemplate a further increase of the tax on incomes at this time it is very difficult to understand. Last year the income tax payer was first made to pay five quarters' tax in twelve months ; then he had the standard rate of tax raised from 4s. 6d. to 5s. in the £, and finally he was asked, as a matter of patriotism, to pay with exceptional punctuality and readiness the three-sixteenths of his income which thus became payable to the Treasury on January 1. That he responded magnificently is largely responsible for the balancing of the 1931-32 budget, which closed with a small surplus in spite of the fact that £10 $\frac{1}{2}$ millions of the old exchange reserve account, which had been allowed for in the estimates, were not used. Optimistic forecasts had been made as to the margin which the Chancellor would have in hand for the current year, and while it was apparent that a reduction of the standard rate of income tax was out of the question, most prophets expected some small relief from taxation. The Chancellor's speech on April 19 was therefore highly disappointing, since the only proposal involving a reduction of taxation was an adjustment of the sugar duties designed to increase the colonial preference and to continue as a difference between customs and excise the expiring portions of the present subsidy on home-grown sugar. The one major change in taxation—apart from the general tariff—was in an upward direction, namely, the resurrection of the tea duty, which after a life of three centuries had been killed

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by Mr. Churchill, at the rate of 4d. per pound on foreign
and 2d. per pound on Empire tea.

Mr. Chamberlain's budget for 1932-33 balances, with a small surplus, at £766.8 millions, omitting self-balancing revenue and expenditure. This total includes £32.5 millions for the reduction of debt—barely enough to cover the specific sinking funds. The budget has been cast up without including either receipts or payments in respect of war debts and reparations, which means that, if America insists on her legal rights while Germany remains unable to pay, we shall be faced with a further budgetary liability before the end of the year. The Chancellor has had to allow for a reduction of £38 millions in the yield of income tax and surtax, compared with receipts last year, and it is obvious that no source of revenue and no substantial economy could have been safely discarded. He legitimately challenged opponents of the 10 per cent. tariff to show him where else he could have found the £27 millions that he expected the duties to yield ; he added, besides, another million for the Abnormal Importations and Horticultural Products duties, and five millions for the additional duties recommended by the Advisory Committee. It was not a cheerful budget. The British people, grumbling but not grudging, had tightened their belts by a rather painful hole last September, and now they realised that their vitals must remain so contracted for another year at least. The denial of a penny a pint off beer, which had been generally expected, added particularly to the universal gloom.

The most remarkable chapter of Mr. Chamberlain's financial statement did not concern the budget proper at all, but related to the setting up of an "exchange equalisation fund" for the purpose of strengthening the currency and checking undue fluctuations in the exchange value of sterling. The Treasury is to have power to borrow (probably, said Mr. Runciman, by way of Treasury bills), a maximum of £150 millions for the fund, which will also start with a legacy of £25 millions from the old exchange

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reserve. The fund will be used for three ends: to make good any loss, up to £8 millions, incurred by the Bank of England in connection with its foreign credits of last summer; to enable the accounts of the Bank's issue department to balance despite the valuation of the foreign exchange held against notes at market prices while the gold is still entered at the old par; and to prevent what the Financial Secretary to the Treasury described as "sudden and unmanageable lurches from one side to the other" in the exchange value of sterling, by means of the purchase or sale of gold or foreign exchange—"the international book-making business," Mr. Maxton called it. The account will be managed by the Bank of England under the authority of the Treasury.

The Government steadfastly refused to be drawn as to their ultimate monetary policy.

When you consider (said Mr. Chamberlain) the economic disturbances which are still occurring in the world, and of which we have probably not even now felt the worst, it is perfectly useless to pretend that we can hold our exchange position exactly as we please, independent of anything which is going on around us . . . We do not know what is going to be the future of gold prices. We do not know what settlement will be reached as regards reparations and war debts, and other matters, which are now disturbing the world. These uncertainties rule out any possibility of our being able to return to gold immediately. We do not know when or in what circumstances we may return to gold, or at what level.

Now and again in the debate on the proposal to create the exchange equalisation fund the voice of financial orthodoxy was heard, but the plan found support in all quarters of the House chiefly on the ground that it would enable the Bank of England to pursue an easy credit policy for the benefit of home industry without having to subordinate its actions to exchange influences. Criticism was directed mainly against the secrecy in which the management of the fund is apparently to be wrapped.

To come to this House (said Mr. Boothby) and ask for a loan of £150,000,000 and to refuse to give any information whatsoever

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about the state of the account of which this loan is to be the basis is asking us to bite off rather more than we can be expected to chew.

Nevertheless, pleading that publicity would be a boon to the speculators whom they sought to confound, the Government insisted on asking, and their majority obediently chewed.

Partly on account of the more than punctual payment of the Bank of England and Treasury credits that were raised in defence of the pound last August, confidence in the British financial position (or at any rate speculative bullishness) so far increased that sterling rose from \$3.40 at the beginning of the year to \$3.82 on March 29. This appreciation, which was due rather to the inflow of short-term funds than to any fundamental change in our balance of overseas trade, caused some perturbation among industrialists and traders, who naturally favour a low rate of exchange. The announcement that an exchange equalisation fund was to be set up was taken by speculators as indicating that the Government had bowed to those influences, and the immediate reaction was a fall in the exchange rate to \$3.62½ on April 26. The future progress of sterling cannot be foreseen. It depends, of course, on the Government's monetary policy and on the effect of import restrictions on the balance of trade, but still more on the development of world economic and political conditions.

V. BYE-ELECTIONS

THERE have been a number of bye-elections recently, all save one of which have left the numerical constitution of the House unchanged, although the enormous Government majorities at the general election have not been repeated. The exception was at Wakefield, where Mr. Greenwood, formerly Minister of Health, changed a Conservative majority of 4,000 into a small majority for

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Labour. The result, which was not surprising in view of the fact that polling took place a couple of days after Mr. Chamberlain's unattractive budget was opened, considerably strengthens the Opposition front bench, on which Mr. Lansbury, Sir Stafford Cripps and Major Attlee have had to shoulder an excessive burden of work. At an earlier bye-election in Dumbartonshire, Mr. Tom Johnston, the former Lord Privy Seal, failed by 3,000 votes to reverse the majority of over 12,000 obtained by a Conservative at the general election. During this bye-election campaign considerable heat was engendered by the impromptu statement of Sir Archibald Sinclair, one of the free-trade Liberal members of the Cabinet, that he would rather vote for the Conservative candidate, who was a protectionist, than for Mr. Johnston, who stood on a free trade platform, because the former was the only candidate pledged to support the Government. In this, according to the *Manchester Guardian*, "he showed a quite inadequate appreciation of the feeling of Liberals, not only in Dumbartonshire but all over the country."

CANADA

I. THE SESSION

THE second session of the seventeenth Federal Parliament, which opened on February 6, has now been in progress more than two months, and it has a comparatively meagre record of accomplishment to show for its labours. There had been no material change in the standing of parties since the end of the previous session, as the Government had found compensation for the loss of a seat at East Hamilton in Ontario to Labour by the capture of the Three Rivers-St. Maurice division in Quebec from the Liberals. Moreover, in March they secured another gain at the expense of the Liberals by winning the Athabasca division of Alberta, but the glory of this unexpected triumph was qualified by the fact that it was won in a four-cornered contest in which the victorious Conservative candidate polled only 35 per cent. of the total votes cast; indeed the most notable feature of this by-election was the exploit of the nominee of an organisation called The Farmers' Equity League, who ran on a frankly communist platform, in polling over 2,500 votes in a purely rural constituency. The Bennett Ministry, therefore, was still in possession of a commanding majority in the House of Commons when the session opened, and thanks to the operations of mortality it had acquired a slight numerical superiority in the Senate. There had also been during the recess a modified reorganisation of the Cabinet, by which the Prime Minister gave up the Department of Finance to Mr. E. N. Rhodes, formerly

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Minister of Fisheries ; Mr. Duranleau, Minister of Marine, assumed charge of the Fisheries Department ; and Mr. Gordon, the Minister of Immigration, took over the Department of Labour from Senator Robertson after the latter's resignation on account of ill-health.

The Speech from the Throne forecast a very modest programme of legislation, consisting chiefly of Bills designed to improve existing Statutes, and few of these measures were of a controversial character. Consequently, during the first week of the session, a great deal of time was quite unprofitably occupied in academic debates on resolutions sponsored by private members, in which pet panaceas for the country's troubles were unfolded, or special grievances made the theme of protest and lamentation. The Liberals did not develop any sign of the militant and aggressive spirit which their press propagandists had predicted until the Government, early in March, introduced a Bill seeking an extension for two months of its powers under the Unemployment and Farm Relief Act, which had had February 1 fixed as its time limit. To this proposal Mr. Mackenzie King and his followers embarked upon a campaign of resolute opposition ; they contended that it was superfluous for the Government, when Parliament was in session, to seek an extension of the arbitrary powers conferred by this Act ; that last year the Government, in order to overcome Liberal hostility to its demand for a blank cheque, had deliberately agreed to limit the operation of the Act to February 1, 1932 ; and that the proper course for the Ministry was to estimate the sums required for unemployment relief and include them in a special vote the passage of which would be immediately facilitated. Liberal orators waxed vehement upon the outrage which was being perpetrated upon the principle of parliamentary control of finance, they discerned in the measure convincing evidence of the Mussolinian proclivities of Mr. Bennett, and they professed to be battling against a sinister scheme for the virtual establishment of a dictatorship. They

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also sought to adduce proof that the administration of the Government's relief programme of public works had been seriously mismanaged and not untainted by graft and scandals. The defence of the Government was that it had used its arbitrary powers with discretion and to the profit of the country, that the charges about mismanagement and scandals were unfounded, and that an emergency situation still existed, demanding a wide latitude of authority for the Cabinet to meet special contingencies. However, the Liberals remained unconvinced by ministerial arguments and adopted tactics of deliberate obstruction, with the result that the Government was compelled to resort twice to the closure, which is very rarely applied at Ottawa, in order to secure the passage of its Bill. But when it became law it had only a month to operate, and since there is no prospect of the unemployment situation undergoing any substantial improvement during the summer, Parliament, as Mr. Bennett has intimated, will have to consider further plans for coping with it before the session ends. Already such plans have been the subject of a conference at Ottawa in which Federal Ministers and representatives of all the nine provincial administrations participated. At this meeting no final decision about future policy was reached, but the Federal Ministers, after making a frank statement about the position of the federal finances, definitely intimated that they could not continue co-operation with the provinces and municipalities in a further programme of special public works for unemployment relief, but had decided to reserve their resources for a direct dole. Experience of the past two years has revealed that special public works are a very expensive method of coping with unemployment ; the *Financial Post* of Toronto was responsible for the estimate that for every day's labour thus provided \$10 had been added to the debt of some public authority, and it is notorious that the financial burden entailed by these special public works has strained the credit of several provinces and numerous municipalities

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almost to breaking point. Commenting on the results of this conference the *Manitoba Free Press* wrote: "According to its decision Canada will definitely fall back on the dole in spite of all that has been said against it," and declared that its adoption was a confession of a complete abandonment of all hope of carrying out the programme which Mr. Bennett had advanced at the last general election.

It is highly doubtful whether the Liberal declarations about the rights of Parliament excited much sympathetic response from the public, which is more interested in the efficacy of the Government's measures than the constitutionality of its methods; but what the Liberals did accomplish by consuming three weeks of Parliament's time was to upset the schedule of the Government's plans and prevent the production of the budget until after the brief Easter recess. For his maiden budget speech Mr. Rhodes had a very cheerless task, but he courageously followed his predecessor's example in giving a frank and comprehensive outline of the national balance sheet. Shrinking revenues and heavy extraordinary expenditures had left all the forecasted estimates of the previous budget far astray, and with revenues placed at $334\frac{1}{2}$ million dollars, and the aggregate of ordinary, capital and special expenditures at $454\frac{1}{2}$ millions, he had to admit for the fiscal year 1931-32 a deficit of $119\frac{1}{2}$ million dollars. To this the special expenditures had made a large contribution, as the Federal Government's share of the cost of unemployment relief had absorbed $38\frac{1}{2}$ million dollars, and the wheat bonus had taken 11 millions. Moreover Mr. Rhodes had to accentuate the sadness of his budget tale by an admission that the drain of the Canadian National Railway system upon the Federal Treasury during the last fiscal year had reached the grim total of 109 million dollars, of which the operating deficit alone was responsible for some 60 millions, and capital expenditures and other items for the balance. So the sum of the matter was that the aggregate revenues of

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the Federal Government fell short of expenditure by roughly 180 million dollars, and since the gap had had to be bridged by borrowing, there had been an addition of roughly this amount to the national debt. Mr. Rhodes also disclosed in his speech that the Federal Treasury had found it necessary to advance some 22 million dollars to different provincial governments, partly to avert default on obligations maturing in New York and partly to finance their share of the unemployment relief programme. However, he claimed that the Government was entitled to credit for a satisfactory handling of the national finances under very difficult conditions, and that the measures taken to deal with the embarrassing situation created by the depreciation of the Canadian dollar in New York had succeeded in their dual object of enabling Canada to meet her foreign obligations according to the terms of the contracts and of maintaining an ample reservoir of credit for the needs of Canadian business.

For the fiscal year 1932-33, Mr. Rhodes showed that a rigorous application of the pruning hook of economy still left ordinary expenditure at an estimated figure of 369 million dollars, and that, unless there was marked revival in trade, the existing basis of taxation would not yield more than 319 million dollars. So he submitted proposals for new taxation which is estimated to produce an additional 55 million dollars. The main additional imposts take the form of an increase in the personal and corporation income taxes, and a sharp increase of the sales tax from 4 to 6 per cent., while the special excise duty on imports is also raised from 1 to 3 per cent. In addition, a variety of what are styled "nuisance taxes," on cheques, telegrams, cables, sleeping and parlour car tickets, etc., are either imposed or increased. So, if the taxation estimates are realised, the Government will have a surplus of some \$4,300,000 over the needs of ordinary expenditure, but as this surplus will be more than wiped out by capital expenditure, and as the sums required for unemployment relief and the Canadian

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National Railways are just as likely to be larger as smaller than they were in 1931-32, obviously there looms ahead another substantial deficit which will have to be made good by borrowing. In the budget, however, only one minor tariff change was included, and Mr. Rhodes explained that the Government had decided, in view of the approaching Conference, to leave the British preference untouched and that this decision precluded any adjustment of the general tariff.

When the budget debate opened, the Liberal line of attack was immediately developed by Colonel Ralston, who has now become the Opposition's chief financial critic, in a very able and effective speech. His criticism of the financial proposals of the budget was mainly directed against the leniency shown to the richer classes in the readjustment of income tax rates, and against the protectionist aspect of the increase in the excise tax on imports; but he also accused the Government of general mismanagement of the national finances, charging them with lack of courage to impose the heavy taxation required to make good the deficit created by their follies and errors, and to secure a true balance for the budget of 1932-33. He reserved, however, his chief fire for the fiscal policy of the Government, whose excesses in high protectionism were, in his view, largely responsible for the country's financial and other difficulties. Quoting freely from statistics, he argued that not only had the policy of higher tariffs, sponsored by the Bennett Ministry, depressed the position of the great natural industries by producing reprisals from other countries which had found their markets impaired, and maintained an unjust disparity between the prices of manufactured goods and farm products, but it had also signally failed in its avowed main objective, the increase of industrial employment; he pointed out that even in industries like textile manufactures, which had been the chief beneficiaries of tariff largess, employment was substantially less than it was two years ago. With regard

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to imperial trade co-operation, he contrasted the practical zeal of the Liberal party in this sphere, as evidenced by Mr. Dunning's budget of 1930, with the attitude adopted by Mr. Bennett at the last Imperial Conference, and, depicting the Government as obsessed by the doctrines of a selfish economic nationalism, and as disposed to obstruct measures for the stimulation of inter-imperial trade, he alleged that they had missed a great opportunity in their budget when they had failed to include in it substantial concessions for British imports by way of reciprocity for Great Britain's exemption of Canadian goods from the operation of her tariff. He also criticised severely the system of tariff administration now followed at Ottawa, and declared that the practice of changing duties by Orders-in-Council and by arbitrary valuations had made the customs schedules a mere formality and ruined Canada's import trade. At the close of his speech, Colonel Ralston moved an amendment which was in effect a denunciation of the Government's fiscal policy and a demand for its immediate reversal.

The Government's reply to this indictment was entrusted to Mr. Stevens, the Minister of Trade and Commerce, who argued with some justice that Colonel Ralston had made no allowance for the extraordinary difficulties imposed on the Government by general world conditions, and that there was no satisfactory alternative to many of the policies which it had adopted. In a reasoned defence of the budget and the Government's tariff policy, he claimed that the enactment of higher tariffs, so far from decreasing employment, had saved the country from an industrial *débâcle*, and he particularly sought to defend the Government's action in levying special duties to counterbalance the effects of the depreciation of sterling. In a brief reference to the Imperial Conference he asserted that the Government and its officials were working at a variety of problems connected with it, and protested that it was grossly unfair of the Opposition to disseminate the

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idea that the Ministry was obstructive or even indifferent to projects of imperial trade co-operation. For some time past Mr. Stevens has been a zealous protagonist of monetary reform and has even lent his advocacy to the cause of the remonetisation of silver. In his speech he discussed at considerable length the problems involved in the currency question and the debt situation, foreign and domestic; indeed he indicated that he regarded the evolution of some international or imperial plan for raising the price level by monetary organisation as the paramount need of the day, and since earlier in the session he had fortified himself with the authority of a resolution of Parliament that this problem should be raised at the Conference, it is obvious that if he can have his way it will be an important theme in the Conference's deliberations.

During the subsequent debate, the spokesmen of the Progressive party showed that they shared Mr. Stevens's views about the importance of the debt and currency problems, and were disposed to regard the tariff as a minor issue. Mr. Woodsworth, the leader of the Labour group, after a general arraignment of the whole capitalist system, exhorted the Government to mobilise the unemployed as an army of reconstruction which would devote its energies to building roads, clearing slum areas, preparing land for settlement and kindred tasks. The budget debate is not expected to be a prolonged affair, and as the legislative programme is well advanced the way should be open for prorogation by the middle of May, which will leave the Government two clear months for preparation for the Conference. Legislation, split into three Bills, which the Government introduced in the Senate, designed to cure certain vital defects in the existing federal insurance law exposed by a recent decision of the Privy Council, has produced a sharp controversy with the provincial governments of Ontario and Quebec, which contend that the Bennett Ministry is precluded from exercising any jurisdiction over insurance by reason of this decision and by

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the terms of the constitution. The session has also witnessed a veritable epidemic of special committees which have been charged with the investigation of such varied subjects as radio-broadcasting policy, the activities of the Civil Service Commission, gasoline prices and, *infandum renovare dolorem*, the position of the three Liberal Senators who were involved in the Beauharnois affair.

At the end of the long parliamentary squabble on the unemployment Bill, the Conservative Ottawa *Journal* was moved to violent protest about the performances of Parliament, and an editorial entitled "The Holy Show of Parliament" began with these words :

Parliament's capacity for folly and futility amounts to a national scandal. In two months it has done little but make a holy show of itself, has exhibited such a pathetic sterility of common sense as to make the average Canadian or any believer in representative government blush in humiliation.

This sweeping condemnation may be too severe, but the general verdict of impartial observers is that the present session has so far been one of the dullest on record. Yet if its proceedings have been characterised by an atmosphere of unreality and futility, there is an underlying cause. The truth is that there are now in process of maturing three greater issues in the country's future : one is the country's trade policy which is involved in the results of the Imperial Economic Conference, a second is the St. Lawrence deep waterway, and a third is the railway problem, and between them they promise to shape the course of Canadian politics in the coming years and to determine the fortunes and fate of parties. Meanwhile the politicians of all parties are simply marking time until these issues emerge in concrete form and plans and policies have been formulated in connection with them.

The Prairie Provinces

II. THE PRAIRIE PROVINCES

THE West is girding itself for the crop year of 1932 with mixed feelings. The relief from the stress of winter and the advent of spring tend almost automatically to induce a spirit of optimism. The West is so much in the hands of nature that at each seed-time it seems as if anything is possible if only nature will be kind. Moreover, after three years of severe drought affecting large sections of the most productive of the wheat lands, it seems as if the law of averages is all in favour of a wet year, and a study of the history of the climatic cycle, carried back nearly two centuries through studies of tree growth, encourages this hope.

Those who are less optimistic point out that actual conditions at the moment are not uniformly good. In the northern part of the provinces there was a heavy rainfall in the autumn and snow during the winter, with the result that there is not only abundant surface moisture but also the much desired subsoil moisture. In the dry areas of last year, which roughly cover the south-east corner of Alberta, the southern half of Saskatchewan and the south-west corner of Manitoba, there has been sufficient rain and snow to make a good seed bed and to germinate the seed, and conditions in this respect are much better than a year ago, when the ground was so dry that even during the winter there were severe dust storms, but there has not been sufficient moisture to penetrate the soil very deeply or to act as a reserve for the crop in the event of inadequate rains later on. Hence in this large and important region the "June rains" will be awaited with even more than the usual anxiety.

While then the tendency to spring optimism is general, there are inevitably local differences of feeling in so large an area. It is, for instance, natural that the feeling should,

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broadly speaking, be better in the north. In the first place, the drought has been largely confined to the south. Then in the north there is far more mixed farming, less dependence on wheat and more capacity on the part of the farmers to live off their own land. Even within this more favoured area, however, there are differences. In Manitoba years of careless farming have allowed a devastating influx of weeds to grow up in many districts. This has reduced agriculture in districts which were formerly prosperous to a very low state. Definite efforts are now being made to combat this decline by public and private agencies but, notwithstanding this, the situation is at present far from satisfactory. Manitoba has also, to a greater extent than either of the other provinces, an unemployment problem in and around Winnipeg, which now contains a substantial manufacturing population, and Mr. Dafoe, the editor of the *Manitoba Free Press*, is demanding that plans should be made to deal with the situation, which up to the present has been handled in rather a haphazard way. But although Saskatchewan has no problem of urban unemployment to compare with that of Manitoba, her own relief problem, taken as a whole, is much more serious. The fact that the immensely fertile Regina plain, the most thickly settled part of the whole province, has been affected by drought for three years in succession has created a most serious state of things. This particular district, with its fine farmhouses and buildings quite like those of the flourishing farming communities in eastern Canada, is ordinarily, perhaps, the most prosperous in the whole West; but three years of bad crops, culminating in the total failure of last year, have produced an unprecedented situation. One is told that in Saskatchewan last winter, out of a total population of 900,000 there were 300,000 people receiving relief. This doubtless includes everyone who has received anything of any kind, food, clothes, fuel, seed grain, fodder, etc., but it indicates what a problem the people of Saskatchewan

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have to deal with. They comfort themselves with the reflection that this southern area, which has suffered most acutely, is so extremely fertile that in one good year, as it has often demonstrated in the past, it can make up for several bad seasons, and meanwhile they are making heroic efforts to cut their coat according to their cloth in the matter of expenditure. Recently, in order to market an issue of bonds, they had to satisfy the bond-houses that they would balance, or substantially balance, their budget during the current year. Considering that the value of their 1931 crop was one-fifth of the value of the 1928 one, this shows the courageous way in which they are grappling with their difficulties. Incidentally they have introduced an income tax with the exemption reduced to \$750, which is lower than the exemption from the Dominion income tax, and they have fixed a minimum amount to be paid by anyone whose income exceeds the exempted amount, even if the tax rate when applied to the taxable part of the income would not yield the prescribed minimum.

In Alberta conditions are better than in either of the other provinces, though here too the southern part of the province has suffered greatly from drought. Northern Alberta, having largely escaped, and being the finest wheat raising area in the province, is perhaps the best place in which to study the effect of low prices by itself, as distinct from that of low prices and drought combined. In spite of the devastating drop in price, farmers who are not overburdened with debt, as a result either of spending too much on the purchase of land or of other extravagances during the good years, are still able to carry on. This is of course particularly true in cases where they have not confined themselves to wheat. Loan companies find that, even at present prices, in these favoured districts in northern Alberta borrowers can usually pay interest on their indebtedness and in exceptional cases are reducing the principal as well. There is certainly among these northern Alberta farmers a somewhat more hopeful feeling

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about their ultimate ability to meet their indebtedness than there was a year ago. This is due mainly to two things: First of all, they have now survived another year of low prices and find that they are still carrying on, and, second, they have reduced the cost of growing wheat to what they would have formerly considered an inconceivably low amount. The result is that, whereas a year ago they were apt to regard their debts as a burden which was altogether unbearable, one which it was hardly worth while even to calculate, to-day they are more inclined to believe that, given patience on the part of the creditor and a reasonable improvement in conditions, they can work their way out.

As this problem of farm debts has steadily grown more important in the West, a few figures may be of interest. As a result of investigations in twenty average Saskatchewan municipalities it was ascertained that roughly 50 per cent. of the land was mortgaged and 50 per cent. of it clear of mortgages. Following a different line of inquiry, confined almost exclusively to mortgaged farms, *Farm Outlook*, a publication sponsored by the Department of Farm Management in the University of Saskatchewan, reports as follows. During the years 1930 and 1931 credit statements were secured from some 650 farmers. Summaries of the data indicate that, out of 497 farms which supplied adequate financial information, 89 per cent. were worked by owners or part owners and 11 per cent. by tenants. Of the 441 owners or part owners, 8 per cent. were reported to be free from debt and the remaining 92 per cent. as having debts averaging \$4,782 per farm. The existence of debts secured by mortgages on real estate and of unpaid accounts due under agreements for the purchase of property was reported in the case of 81 per cent. of the 441 owners, and entailed a sum of \$4,341 owing for each farm with this class of debt. This amount is of course included in the \$4,782 average mentioned above. Estimates of the farm capital of owners visited by representatives of the department at

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the time show that the average debt was equal to about 27.8 per cent. of the whole of the farm capital of the debtor. But although recent droughts and low prices have, as already mentioned, made this burden appear in many cases intolerable, the fact remains that with one or two favourable years, and with prudent administration of their resources on the part of the farmers, the whole debt situation would be amazingly improved.

Reference has been made to the reduction of the cost of growing wheat. It is dangerous to give figures, but this at least can safely be said. Although three years ago farmers would have thought that a price of a dollar a bushel for wheat meant the end of the world, and although even a year ago they felt that a dollar was probably the irreducible minimum, to-day the feeling is that 75 cent. wheat would enable them to carry on reasonably well. It will thus be seen that we are getting down to a cost of production which should enable us to reap a great advantage from any substantial improvement in the price.

It is interesting to visit these provinces at the present moment. The provincial governments are struggling manfully to solve the problem of balancing their budgets. They have made drastic cuts in expenditure and are looking in every direction for new sources of income. Corporations are naturally regarded as one great source of supply, and in particular banks, insurance, loan and trust companies are all being asked to contribute substantial additional amounts in the way of taxes. As nearly all these corporations have their head offices in the East, there has been quite a migration westward of head office officials to remind the provincial governments that any further difficulties put in the way of financial institutions and the security of investments may react to the disadvantage of their provinces by drying up the sources of money for loans, whether on land, crops, live stock, or other things. Having regard to the difficulties of the western governments and to the pressure that is being put upon them by some of the more

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extreme of their own followers, their attitude has been characterised by much good sense and a real desire to be fair. They have undoubtedly been forced to impose certain taxes which contravene sound principles of taxation—notably in cases where gross income has been taxed and no allowance made for losses—but in those cases the legislation has usually been temporary and specifically stated to be only for the purpose of meeting emergencies.

It is natural that, confronted with such a striking deterioration in his position, the farmer should grasp at the various panaceas that offer quicker relief from his difficulties than he can expect to get from the working out of economic laws. Debt revision has been much in the air. It is interesting to note that, although Alberta has suffered less than either of the other provinces, the demand for relief there has been perhaps more insistent than anywhere else. One is inclined to attribute this to the fact that there is a much larger percentage of foreigners there, who are apt to be in too much of a hurry, and to seek short cuts to their ends. It is a strong point in the situation of southern Saskatchewan, the district most seriously affected by drought, that the farmers are mainly of Anglo-Saxon origin, sound and well-balanced even in their troubles. The result of this was evident at a recent sitting of the Debt Adjustment Committee of the Saskatchewan Legislature. In spite of their present troubles the farmers showed a spirit of moderation and an appreciation of the economic implications of any compulsory adjustment of debt. The following paragraphs give the view of the *Manitoba Free Press* on the subject :—

The debt adjustment must be on a voluntary basis. Compulsory adjustment is out of the question. Apart from regard for the sanctity of contracts, the credit both of the farming population and of the province would certainly suffer if partial repudiation were adopted in the form of compulsory scaling down of debts. It would do Manitoba no good if it were known that compulsory adjustment was even seriously considered. At this particular time, with the provincial government about to float a \$5,000,000 loan,

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it would be the height of folly to damage the reputation and credit of Manitoba by deciding upon such a policy, involving a measure of repudiation. Since a Conservative member of the Legislature has declared in favour of compulsory adjustment of debts, it might be well for the Conservative party to make it clear that it is not in favour of such a course.

It should be possible to meet the situation by the extension of the powers of the present Debt Adjustment Board. In the first place, the principle of the Industrial Disputes Conciliation Act might be adopted and all foreclosures prevented until the cases were dealt with by the Adjustment Board. With the claims of the creditors and the whole position of the farmer placed before the Board, it should be possible to reach a voluntary agreement which would ensure the creditors as much as they could get in any case, and leave the farmer with a loan that he could carry.

Meanwhile adjustments as between individual debtors and individual creditors are, of course, constantly going on, although at the moment the cases in which there has been any actual revision of liabilities, as distinct from an extension of time, are only a small percentage of the whole number, probably substantially less than 10 per cent. The basis of such adjustments is the capacity of each individual debtor to pay, rather than any general scaling down of the debts of a class. A different line has been taken by the Massey-Harris Company, the great Canadian manufacturer of agricultural implements, which made the following announcement on April 14:—

For weeks past, the officers and directors of Massey-Harris Company have been giving continuous thought to working out a policy which would be of help to the farmers of Canada who will shortly be busy preparing for a new season's operations. Owing to the unprecedented fall in the prices of agricultural products, the purchasing power of the farmer has been lessened to such a degree as to reduce farm implement purchases to the lowest point in years.

Our factories are practically idle and workmen who have been faithful and loyal employés for years have but little immediate prospect for employment and livelihood.

The information we have received in the last few days indicates that over practically the whole of Canada the prospects for favourable seeding conditions are more promising than for several years. On the other hand, there are many farmers who are finding the

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greatest difficulty in providing themselves with the very machinery necessary for carrying on their operations on an economic basis.

With a view to helping this situation for the farmer, with a view to increasing employment for our men, and with a hope that the increased operations that may result will afford some compensation to the company for the loss it will sustain, we have decided to announce important changes with regard to prices and collection of accounts, effective forthwith. These changes are as follows:—

On all new purchases of implements, whether bought for cash or on time, a 10 per cent. discount will be allowed, to the extent to which payments are made prior to November 30, 1932.

On all existing obligations of the farmer to the company, whether past due, current, or future, a discount of 10 per cent. will be allowed, both on principal and interest, to the extent of the payments made on such indebtedness prior to November 30, 1932.

This discount of 10 per cent. is special for the present year and applies only to Canada. It is not based upon reductions in cost of production, because as yet there has been no reduction. It reflects a desire in the present emergency to be of service to our customer, the farmer, with whose success our own is so closely linked.

It is hoped that coming at this time, the offer may enable many farmers to secure equipment which they much need, and to assist and encourage them in the liquidation of their present indebtedness. If it accomplishes this, even in a small measure, we shall all feel that it has been well worth while.

Formal announcement by the company, giving the particulars in more detail, will be issued to-morrow.

This offer of the Massey-Harris Company follows upon the offer of the Canadian Pacific Railway some time ago to reduce payments on land contracts.

The prairie provinces are naturally intensely interested in the approaching Ottawa Conference. Having regard to the action of the present Government up to date, they are fearful lest the interests of the primary producer in Canada should be sacrificed to the interests of the manufacturer. The record of their own members in the House of Commons at Ottawa, though their numbers in the Conservative party should be sufficient to make their voice tell, is not such as to make their constituents in the West feel that they can be relied upon to make a definite

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stand for what would ordinarily be regarded west of the Great Lakes as the interests of the West. Thoughtful people feel that it is almost too much to expect the Eastern manufacturer to accept the view that an increase in the prices of basic commodities produced in Canada, which would improve his position more quickly and more effectively than anything else, would tend to follow the sale in Canada of larger quantities of British and foreign manufactures through the increased purchasing power that such sales would bring to the countries making them. The Canadian manufacturer may admit the theoretical force of this argument, but, with much of the foreign trade that he had three years ago gone, the instinct of self-preservation prompts him to cling closer than ever to the home market. The Western farmer has, of course, argued for many years that the prosperity of Canada depends on a more liberal admission of foreign manufactures, and he naturally feels that his argument, which in good times was not conclusive inasmuch as the producer of raw materials was getting along fairly well in spite of tariffs, has now been proved to be sound beyond all dispute. It will make a considerable difference if the farmers are able to make their views effective at Ottawa in July.

Meanwhile spring is here and, as already stated, the possibilities of spring in the West seem almost illimitable. There is already in anticipation a certain incipient quickening in the air of the Western cities. At Winnipeg the makers of harness and workmen's overalls are working as they have not done for a long time past. The great department stores note some improvement. Here and there a business is picking up. The owner of a number of lumber yards in different parts of Alberta reports that things are better. A country hardware shop shows improved results due to trading now on a cash basis only. If this proves to be nature's generous year and the three provinces have a large crop, the result would be felt right through the East as well as the West. The railways

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would at once become busy—they would benefit from the wheat haulage whatever the price of wheat. Manufacturers in the East would immediately feel the effect of the increased consuming power of the West. Even if there should be no improvement in prices, a good crop should practically sweep away unemployment in the West and to a considerable extent in the East also. But if there were, in addition, to be a moderate improvement in the price, say, from 65 to 75 cents or even more, the consequences throughout all Canada might be electric.

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April, 1932.

AUSTRALIA

MINISTERS who return to office after a period spent in opposition are very much in the position of a family coming back, after having had tenants in the house for a year or two, to find that the furniture has been put in impossible places, that the garden has been stocked with quite unwanted species, and perhaps that (as with the "United Australia" family) the hedges, left uncut, have grown rank and uneven. The time is ripe for quick decisions and important changes; everything clamours for immediate attention, and all is bustle and excitement. The whole family is impatient to have the house in order and to be "settled in." It is in this kind of strenuous activity that the Lyons Ministry at Canberra has spent its first three months. The Government has "got into its stride" very quickly, much more quickly than has been customary of late years. It met the new Parliament in the middle of February, with the main lines of ministerial policy already laid down, and at once brought in two measures which are likely to prove historic—the first downward revision of the tariff in the history of the Commonwealth and a Bill to coerce the defaulting State of New South Wales, which is quite without precedent in British countries.

I. NEW SOUTH WALES VERSUS THE COMMONWEALTH

FROM the very start, Mr. Lang has been an unwilling participant in the system of unified loan arrangements which was established by the financial agreement of 1927.* There was full co-operation during Mr. Bavin's Premiership (1927-1930), but when Mr. Lang again became Premier it was not long before he found himself completely at variance with the other members of the Loan Council on matters of financial policy. He propounded in Feb-

* See THE ROUND TABLE, No. 69, December 1927, pp. 181-190, especially pp. 183-4.

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ruary, 1931, his own scheme for meeting the financial embarrassments of the country.

The first proposal (he said) was that Australia should pay no more interest overseas until the British financial interests fund the Australian debt on the same terms as America funded the British debt . . . The second proposal was a reduction of the whole (internal) interest burden being borne by Australia, both in governmental and private finance.

These proposals were rejected by all the other Australian Governments ; in Mr. Lang's own words, " they were rejected unanimously and emphatically, without argument and with horror." The New South Wales Legislative Council refused to pass a reduction of interest Bill, designed to give effect to the second of these proposals by fixing a maximum rate of interest in New South Wales of 3 per cent. In the same month (March, 1931) Mr. Lang failed to provide the Commonwealth with the moneys required to meet the interest on certain loans in London and New York. By thus defaulting on his obligations under the financial agreement, he put the former of his proposals into actual operation. The Commonwealth Government resolved that it could not allow the financial credit of the whole country to suffer for the policy of one State, and itself provided funds abroad to make the interest payments. This action was cordially endorsed throughout Australia, and was clearly in accord with the spirit of the financial agreement. The great advantage claimed for that agreement was that the overseas lender would be able to look to the honour and credit of the whole Australian people, and need not be apprehensive of a weak State or an irresponsible Government. So far, therefore, as New South Wales was concerned, a definite attempt had been made to put the "Lang Plan" into operation. Thanks, however, to the Scullin Government and the courts (which saved the Legislative Council from destruction), the only material result of the attempt was to transfer the burden of certain interest payments to the Commonwealth as a whole ; which meant that, unless New South Wales could be made to pay, the whole of the rest of the Commonwealth would

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be subsidising the defaulter. The Commonwealth instituted proceedings in the High Court to recover the moneys it had paid. The issue between Commonwealth and State appeared to be squarely joined.

In June, 1931, however, the situation was altered by the adoption of the Premiers' Plan.* Reluctantly, in order to get money for current expenses, Mr. Lang agreed, along with the others, to reduce the adjustable expenditure of his government by 20 per cent. and to restrict his budget deficit to an agreed figure, in consideration of the conversion of internal governmental debts at a reduction of $22\frac{1}{2}$ per cent. in the interest payable. The interest reduction was not as great as he himself wished, nor did it cover as wide a range, but it was at least in the right direction, and he claimed it as an instalment of the "Lang Plan." Shortly afterwards, he admitted liability for the four and a half millions which the Commonwealth had paid overseas in interest on behalf of New South Wales, and undertook to meet all future liabilities of the State as they fell due. If not harmony, at least co-operation, seemed to be restored. Co-operation, however, proved to be both uneasy and shortlived.

At the end of January, 1932, the Australian Loan Council and a Premiers' Conference met, now, of course, under the chairmanship of the new Prime Minister and Treasurer, Mr. Lyons. The primary business was to review the extent to which the several governments were keeping within the financial limits agreed upon in June last. The figures submitted were disquieting, for they showed that the estimated deficit for the seven governments as a whole, for the year ending June 30, 1932, was almost 50 per cent. greater than had been contemplated under the Premiers' Plan, in spite of the fact that everywhere, except in New South Wales, adjustable expenditure had been reduced by at least the covenanted 20 per cent. Only Victoria was able to show an estimate that was actually within the limit allowed; the Commonwealth and South Australia expected

* See *The ROUND TABLE*, No. 84, September 1931, p. 888 *et seq.*

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to keep their deficits down to their respective limits ; the other four States all showed increases of varying magnitudes — increases of 60 per cent. in New South Wales and in Western Australia, of 200 per cent. in Queensland, and of 180 per cent. in Tasmania. The position may, perhaps, be seen best in tabular form.

(A.) DEFICITS AS COMPARED WITH PREMIERS' PLAN.

Government.	Plan Deficit.	January Estimate.	Percentage Variation.
Commonwealth ..	1,150,000	1,150,000	—
New South Wales ..	5,910,000	9,370,000	plus 60
Victoria ..	1,610,000	1,550,000	minus 4
Queensland ..	760,000	2,320,000	plus 200
South Australia ..	1,500,000	1,500,000	—
Western Australia ..	1,200,000	1,920,000	plus 60
Tasmania ..	90,000	250,000	plus 180
Totals ..	12,220,000	18,060,000	plus 50

(B.) PERCENTAGE REDUCTIONS IN EXPENDITURE.

Commonwealth ..	21	South Australia ..	29
New South Wales ..	15	Western Australia ..	27
Victoria ..	28	Tasmania ..	20
Queensland ..	21		

In the face of figures like these the talk of reductions in taxation with which the meetings of the Loan Council had been heralded came abruptly to an end. The budget figures showed that even the work of checking the drift has not yet been fully accomplished, and illustrated the value of the periodical review provided for by the Loan Council. There had been a certain, and very natural, tendency to regard the Premiers' Plan as having placed the budgets of the Australian governments in a sound and satisfactory position. The review of the first half of the year showed that they still needed further care and effort. It was clear that some States would have to call on the Commonwealth Bank for further accommodation irrespective of their loan requirements for the remainder of the year. Queensland was in the fortunate position of having a cash

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reserve upon which to draw. In the case of Western Australia and Tasmania it was agreed that, inasmuch as they had complied with the Premiers' Plan so far as concerned reduction of expenditure, the Loan Council should request the Commonwealth Bank to make additional advances representing half the amounts by which their deficits would exceed the deficits provided for in the Plan. The governments had in return to undertake to find—either by increased taxation or by additional economies—the other half of the estimated increase. The whole position showed clearly the difficulty of obtaining budgetary equilibrium in Australia under present world conditions. Taxation had been increased on all sides but revenue was falling, and any possibility there may have been of securing a reduction of the overseas interest bill had been rendered far more remote by the filibustering policy of Mr. Lang.

Our primary concern, however, is with the relations of New South Wales to the rest of Australia. Mr. Lang's budgetary position has already been referred to. The figures prepared for the Loan Council showed that New South Wales alone had failed to reduce expenditure by the amount agreed upon last June and that the estimated deficit was 60 per cent. greater than even the huge amount provided for in the Premiers' Plan. Mr. Lang had already had additional advances, and the disgruntled treasurers learned with apprehension on January 29 that he would be unable to meet in full overseas interest payments falling due in London and New York between February 1 and February 4, amounting to some £958,000. He had, he explained, £458,000 in hand, and he asked the Loan Council's sanction for a request to the Commonwealth Bank for an additional advance to cover the remaining £500,000.

The answer was a unanimous, and not unnatural, "No." Mr. Lang, it was explained, "had made no serious attempt to honour his obligations under the Premiers' Plan." The Commonwealth Government announced that it would,

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therefore, refuse to support the giving of any further advances to New South Wales. This refusal was on a Friday. The next question then was what should be done if, on the Monday, Mr. Lang did actually default again. After anxious consultation, the Commonwealth Government resolved not to follow the course taken by Mr. Scullin under similar circumstances in 1931, but to stand on its strict legal position under the financial agreement and to throw upon Mr. Lang, in the face of Australia and the world, the responsibility for a definite act of default in meeting overseas obligations. On the Saturday, Mr. Lyons accordingly announced (with the rather hesitant approval of the Loan Council) that :—

In the event of a default by New South Wales on Monday, bondholders will have to wait for interest payments until legal action is taken or money is made available by New South Wales. No payment to cover liability will be made on Monday by the Commonwealth.

The Commonwealth, he said, regarded itself as a trustee for the bondholders and would take immediate steps to recover the moneys due from New South Wales.

This announcement was regarded in some quarters as a repudiation of all responsibility by the Commonwealth, and the Government's action was subjected to a good deal of criticism. It has since been explained, however, that the Government at no time intended to postpone the payment for any considerable period, but appeared to think that it would be in a better position to take action against New South Wales if default by that State had actually occurred. On the day following the actual default, the Government explained its position more fully, expressly intimating that in the ultimate resort the Commonwealth would be responsible for the payment of the interest in respect of which New South Wales had defaulted, and announcing that immediate steps would be taken to recover the amount involved. A week later the Commonwealth announced that it had been able to make arrangements to pay the amount due at once.

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The Commonwealth Government took, and appears to have been justified in taking, the view that the financial agreement did not make it directly liable to the bondholders in respect of pre-agreement loans; for, although the Commonwealth had assumed liability *as between the Commonwealth and the States*, this did not amount to a substitution of the Commonwealth as the actual debtor. The bondholders' only action lay against the defaulting State. The financial agreement was not in fact drawn up in contemplation of default by any of the parties. Legally unassailable though this position was, it was certainly out of accord with the whole spirit and purpose of the financial agreement. The great advantage of the agreement was, as has already been said, that the overseas lender would be able to look to the credit of the Commonwealth rather than to that of any particular State. The danger of the course proposed by the Commonwealth was obviously that the credit of the whole country might sink to the level of that of the weakest and most irresponsible State. The Commonwealth fully recognised this, and when Parliament met a fortnight later, Mr. Lyons brought in a measure "to resolve doubts which have arisen as to the liability of the Commonwealth to bondholders in certain debts of the States taken over by the Commonwealth." Under the terms of this Act the Commonwealth has now assumed direct liability to the bondholders. But the Government had felt that the interests of Australian credit itself required it to take some drastic step such as the one it had taken. To begin with, New South Wales has other and heavier interest payments to make in the next few months, and the Commonwealth felt that so long as it was prepared to shoulder automatically the responsibilities of the Government of New South Wales, Mr. Lang would simply go on defaulting. That would produce a serious enough financial position for the Commonwealth Government. It also threatened the stability of the whole federal structure. The other States would soon find intolerable a relation

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which bound them all to suffer for the refusal of New South Wales to honour its obligations.

The problem remained of dealing with the defaulter. Hopes began again to centre upon the possibility that the Governor of New South Wales would regard this fresh default as warranting him in dismissing Mr. Lang and dissolving the Parliament. Sir Harrison Moore suggested that the Governor's reserve power of dismissal might properly be exercised when it became clear that the policy of a Ministry was contrary to the will of the electorate; that the federal elections in December had demonstrated conclusively that the electorate of New South Wales disapproved of Mr. Lang's policy; and that the interdependence of the units in a federal community afforded an additional reason for exercising this power, since the unwisdom of one government might (as in this case) impose hardship, and even ruin, upon all the rest as well. Sir Philip Game, however, made no move. The risks involved in intervention by the Governor in a self-governing colony are necessarily both great and incalculable, as more than one of His Majesty's representatives has found in recent years. If the fallen Premier, by denouncing the "imported" Governor as unconstitutional and undemocratic (and in this particular case by raising the cry of "bond-holders or babies") could rally sufficient popular support to obtain a majority, the situation would be worse than ever.

The next step, therefore, was to devise some effective means of making New South Wales pay. There seemed to be no certainty that Mr. Lang would satisfy even a judgment of the High Court for the amount due, and recourse was, therefore, had to the powers of the Commonwealth Parliament under Section 105A of the constitution, to "make laws for the carrying out (of the financial agreement) by the parties thereto." The result was the Financial Agreement Enforcement Act, 1932—a unique piece of legislation. Ordinary judicial methods of enforcement being regarded as inadequate, the object of the Act is to

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enable the Commonwealth to intercept any specified revenues of the defaulting State. The procedure is simple. In case of default the Commonwealth Auditor-General may be required to give a certificate showing what moneys are due from the defaulting State, and thereupon the Attorney-General is authorised to apply to the High Court for a declaration that the amounts set out in the Auditor-General's certificate are due and payable and unpaid by the State to the Commonwealth. The Act goes on to vest remarkable powers in the Commonwealth Parliament. Since there is, in the present state of the law, no adequate means of enforcing a judgment against a State, it is enacted that the two Houses of Parliament may resolve to apply to the defaulting State, in respect of revenues specified in the resolutions, the special procedure for enforcement provided by the Act. Thereupon the specified revenue of the State is to become payable not to the State authorities, but to the Commonwealth Treasurer as from a date to be fixed by Commonwealth proclamation, and during the currency of such proclamation. It is further provided that the Commonwealth may sue for and recover amounts which would normally have been paid to the State by taxpayers—thus protecting the Commonwealth against refusal to pay taxes ; that payment to the State shall not operate as a discharge, whereas payment to the Commonwealth shall so operate ; and that it shall be a criminal offence, punishable by fine or imprisonment or both, for the taxpayer to make, or for any State Minister or officer to receive or permit, payments in contravention of the Act. But even this is not all ; the application to the High Court for a declaration may be postponed if the Houses are of opinion that by reason of urgency the special procedure should be applied at once. Under such circumstances the Houses may resolve to apply the Act immediately upon receipt of the Auditor-General's certificate. In addition to these powers, the Act authorises the Commonwealth to retain moneys payable to the defaulting State under the financial

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agreement, and to demand payment to the Commonwealth of any moneys held by banks on behalf of the defaulting State.

The Commonwealth acted by way of the 'emergency procedure, and immediately on receipt of the Auditor-General's certificate the Houses passed a resolution applying the Act to New South Wales, in respect of revenue not only from what might be called luxury taxes (as on racing and betting and entertainments) but from motor and income taxation as well. The advantage of adopting this procedure is, of course, that if it should become necessary to protect the interests of the Commonwealth before a decision of the High Court could be given, the Commonwealth could issue the proclamation without delay. Otherwise it would be politic to wait for a determination by the Court. Mr. Lang applied to the High Court for a declaration that the Act is invalid, and pending the judgment the Commonwealth did not issue the proclamation to put the "garnishee" procedure into operation. The High Court has now, by a majority of four justices to two, upheld the validity of the Act. Meantime Mr. Lang has repeatedly declared that his Government will take any and every step to defeat the Commonwealth. He has taken the precaution of withdrawing in cash from the Sydney banks the balances standing to the credit of his Government. He has threatened also that if the commercial classes in New South Wales, the supporters of Mr. Lyons' Government, insist that these moneys shall be paid to bondholders overseas, he will impose special taxes by means of which it may be done; but that he will not allow the burden to fall upon "the people" of New South Wales.

It is clear that not only federalism, but constitutional government itself is come now to a decisive test in Australia, and there are many misgivings as to the outcome. The issues between the Commonwealth and New South Wales are not merely legal and financial, but political and social as well, and it is by no means certain that action which will

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resolve one issue will resolve the others too. The issues involved have not in fact been kept at all clear in the public discussions so far. It is perhaps inevitable that, under a federal constitution, political thought should take a legal, and almost a forensic, direction. But unless care is exercised, this necessity for considering always the legal basis of political action tends to concentrate undue attention on the constitutional power to take a course of action contemplated, and to relegate to second place consideration of its substantial merits and its political wisdom. The discussion of the Financial Agreement Enforcement Act has been a clear case in point. Much doubt was expressed whether the measure was really within the legislative power of the Commonwealth Parliament, but, once convinced that the measure was constitutionally valid, supporters of the Government were very commonly disposed to assume it to be desirable, whatever its consequences, unless some other effective "short cut" could be suggested.

A great deal of the discussion of the Act proceeded on the assumption that it is an Act to make "Mr. Lang" pay; that it is an act of protection against "a political outlaw." This kind of personification is a very common thing in politics, both domestic and external, but it is very dangerous. The Act is in fact an Act to ensure that the service of overseas loans will be a first charge upon the revenues drawn from the taxpayers of New South Wales. This is, of course, contrary to the policy of the Government of the State, and much of the support of the Act has been based on the view that the New South Wales Government has ceased to command the support of a majority in the electorate, and that eventually it will be decisively rejected at the polls. Obviously, however, this expectation would be considerably weakened if from any cause Mr. Lang is able to rally fresh support during the life of the present Parliament. This is what makes so hazardous a venture the policy represented by the Financial Agreement Enforcement Act. Default indeed must be restrained, and the federal bond would

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scarcely withstand very long the kind of attacks that Mr. Lang has lately made upon it. Nevertheless, State feeling is still very strong in Australia, and even assuming that the State taxpayer, conscious of his Commonwealth citizenship, obeys without question or resentment the law of the Commonwealth, the very nature of the enforcement proceedings can scarcely fail to strengthen the position of the State Government. The Tasmanian Parliament and Government have, indeed, already protested against the position in which the Act places a State, and Tasmania and Victoria intervened along with New South Wales in challenging the validity of the Act. Yet it is not to be supposed that either Government has the slightest sympathy with the methods of Mr. Lang.

It is therefore possible that a State Government determined to resist, as the New South Wales Government now seems to be, may not only gain a good deal of popular sympathy on the constitutional issue but may actually make the enforcement of the Act difficult. In the long run, it is upon State taxation officers that the Commonwealth must rely, and it is upon State police that the enforcement of all Commonwealth law depends. The Commonwealth has now, by proclamation, put the Act into operation with respect to income tax, and the whole country awaits the result, not without anxiety.

II. IMPERIAL PREFERENCE

AT the Ottawa Conference in July, Australia is to be represented by the Assistant-Treasurer, Mr. Bruce, and the Minister for Trade and Customs, Mr. Gullett. Considerable public interest is being shown in the Conference, and hopes are being expressed that it will inaugurate a new era of prosperity by placing imperial trade relations on a new footing. Hitherto, trade preference between Australia and Great Britain has been one-sided because a consistent free trade policy does not easily admit of preference. But this one-sided character has been more apparent

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than real, for Great Britain was able to make some concessions despite her traditional policy, and Australia stood firmly for protection first and preference afterwards. Now, however, that Great Britain has abandoned free trade for protection it seems that a policy of mutual concessions may be further developed. In Australia, ever since preferences were granted, we have been accustomed to take up the attitude that our generous gifts have been spurned by Great Britain, and the door "banged, bolted and barred" against us. But the fact is that our gifts were chosen with an eye primarily to our own welfare and only secondarily to that of the Empire. It cannot be too strongly emphasised that protectionist sentiment in Australia demands and secures that Australian industries shall be protected against all rivals, and the greatest rival of the Australian manufacturer is the British manufacturer. Our trade policy of protection and preference has been designed, first to protect Australian industries, and then to give preference to the British producer over the foreign producer. These facts serve to explain the indifference or hostility in Australia to the policy of Empire Free Trade. Before the Australian public could welcome Empire Free Trade in the literal meaning of the term it would need to suffer a change of heart similar to the nineteenth century conversion of British manufacturers to free trade, and this it is idle to expect.

Frequent attempts, none of them satisfactory, have been made to calculate the value of the preference granted by Australia to Great Britain by estimating the amount of duty which, but for the preference, would have been paid on British goods imported into Australia. The real advantage, however, afforded to the British manufacturer by preference occurs when his goods have to compete with similar goods of foreign manufacturers subject to a higher duty. The reduced duty obviously offers an inducement to the Australian consumer to purchase British goods in preference to foreign goods. Where the market is largely in the hands

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of the British manufacturer, so that the Australian consumer in any case would use British goods, the preference is not of much advantage to the British manufacturer, although it is to the Australian consumer. Tariff changes since 1929 have materially reduced the advantage which preference gives. The increased duties and the prohibitions placed upon certain imports by the late Scullin Government, whatever may have been their effect upon the trade balance, have made it impossible for many British goods to enter Australia. In these circumstances it is cold comfort to the British manufacturer that foreign goods also have been excluded.

It seems clear that, if genuine concessions are to be made by Australia at Ottawa in return for equally genuine concessions from Great Britain, the present Australian tariff will have to be revised. Great Britain has retreated from free trade and, if Australia retreats from high protection, they may meet on the common ground of a reciprocal trade policy.

Recent political events in Australia furnish an excellent example of the difficulty of tariff reduction. Even before the present depression was in full swing not a few doubts were expressed in responsible quarters as to the dangers of extreme protection. As the depression deepened so the dissatisfaction grew. So much has been said of the necessity of reducing costs of production that it is easy to understand that tariff costs did not escape criticism. It cannot be said that there is any considerable free trade movement, but public opinion, hitherto complacent, is much more critical of the tariff, especially since the changes made by the Scullin Government. The familiar argument that tariffs reduce unemployment wears, in the light of hard economic fact, rather a jaded look, and even the public is recognising that infant industries rarely grow up.

Both the Country party and the United Australia party went to the recent elections pledged to the downward revision of the tariff. Neither party supports free trade,

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but tariff reform is coming to mean, for the first time in this generation, tariff reduction. The Country party made it a condition of joining a composite Ministry that the customs portfolio should be allotted to their leader. This was refused, but the request shows how important they considered the subject of tariff revision. Their attitude is noteworthy in view of the present position of the parties in the House of Representatives, where the Lyons Government commands the direct support of only 37 members (including the Speaker) in a house of 75. But, since the 14 members of the Federal Labour party are pledged to the maintenance of high protection, an alliance to force tariff reduction upon the Government is out of the question.

In the Governor-General's speech the Ministry indicated that changes in the tariff would be made with caution, that recommendations from the Tariff Board—practically ignored by the Scullin Government—would receive close attention, and that the surcharges and prohibitions would be reviewed at once. A week later, in accordance with this promise, Mr. Gullett introduced into the House of Representatives a new tariff schedule, and further expounded the policy of the Government. Under this schedule 69 items were reduced, 11 increased, 43 out of 78 prohibitions were revoked and 19 special duties repealed. The aim of the Government, according to its spokesman, was to reduce costs of production, and particularly to bridge over the difference between the price of what the Australian farmer buys in a protected market and what he sells at world prices. The Government believes that costs could be reduced by removing excessive duties either on manufactures or on primary products, and in carrying out this policy proposes to be guided by the recommendations of the Tariff Board.

The reception given to these proposals illustrates the extraordinary difficulties of tariff adjustment. A storm has arisen over amendments to the tobacco schedule,

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following mainly the advice of the Tariff Board. Truly enormous duties had encouraged growers in several States so that the production of Australian tobacco was trebled. The reduction still gave the local grower a duty of 400 per cent. over imported leaf, but farmers' representatives regard duties on primary products as some compensation for the subsidy to manufactures involved in other duties, and the Leader of the Country party led the opposition to these reductions, while the all-round protectionists looked on with some satisfaction. The amended schedule will probably be carried, especially as the Government have arranged with the tobacco companies to purchase the leaf at a payable price of 2s. 3d., but this unusual action is a reaction to a pressure which it felt to be irresistible, and it will no doubt approach the consideration of the Ottawa policy with the utmost caution.

The difficulties of Empire tariff adjustment are indeed formidable. If an infant vested interest like tobacco growing can exercise such intense pressure for protection of almost astronomical proportions against Australian consumers, is any well entrenched secondary industry going to suffer any sacrifice at all in favour of industry overseas? The question is not one of economics or even business, it is one of politics; and the extraordinary power of organised interests over modern Parliaments suggests that the area of possible action is small. At the present time the Government is engaged in studying the question and in collecting the necessary data. It is bound to be protectionist—it realises that the Scullin tariff was extravagant and absurd; it wants to give preference without sacrificing the protective character of its policy. It sees, however, much capital invested and many men employed in industries which are entirely dependent on the tariff.

The policy adopted will have to define what we are prepared to give and what we feel is reasonable to ask. What we are prepared to give must be found at the expense either of foreign industries or of Australian. An increase

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of the margin between the British tariff and that on goods from other countries will not be easy in all cases. Generally speaking it must mean sacrificing revenue by lowering the British rates or increasing prices by raising the foreign rates upon articles in which British industry is apparently not able to give equal service at equal cost. Nevertheless there will be little difficulty from political quarters in this type of concession, and quite a respectable gift of trade can be made though at some sacrifice. But if Ottawa is to be of real benefit, to Australia from the point of view of cost, and to Great Britain from the point of view of trade, it must be by a reduction of the excessive duties and prohibitions with which the Scullin schedules flattered and encumbered Australian production. The reasoned recommendations of the Tariff Board have revealed a very large number of items upon which the haphazard tariff has only a negligible protective value, though a great restrictive effect. The whole schedule could be combed out for such items and their elimination would be a valuable contribution to Empire trade. Even such a process would encounter opposition from fanatical protectionists who consider any reduction at all a blow to protection, and are quite unable to see that the success of protection in a limited area like Australia depends on its selective character. They will probably fight to save the totally exotic and extravagantly parasitic industries, the existence of which depends entirely on the tariff. In those cases it is really "more blessed to give than to receive," for the Australian conditions are not suitable and the market too small to carry an economic producing unit. Finally, there are many items on which the duties could be lowered so that they remain protective but cease to be prohibitive. Such duties even when reduced would secure for efficient Australian manufacturers the whole of the Australian market for the big standard lines for which there is enough local demand to run producing units economic in size. At the same time, they would not prevent the import of special types or qualities.

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Sheer lack of buying power in times of depression places a limit to the value of all concessions, but such a contribution to the rationalisation of the Empire is all that can be hoped for in exchange for substantial help from the British tariff for Australian export industries.

How can the British contribution, then, help the latter industries? The chief exports of Australia, wool and wheat, are both in difficulties, but a preferential tariff would help neither, for there is a large Empire surplus of both which must find its market in foreign countries. Politicians and pedants have combined to propose a system of Empire wheat quotas, but, as Professor Wadham, professor of agriculture at Melbourne, has pointed out, quota systems are not likely to suit countries which hope to extend their wheat areas. Proposals have been carefully examined by experts and students in Australia and they have come to the definite conclusion that no system yet devised will be of the smallest benefit to the Australian wheat grower, while it is difficult to over-estimate the degree to which such a system would endanger hardly-won business connections and dislocate the established channels of trade. The two great primary industries can best be helped through their side-lines, the most important of which is meat. A preferential duty on lamb and mutton would encourage that diversification of agriculture which is so much to be desired. The pioneering section of the industry however, beef production, is in greater difficulty and might be salvaged by preference. Here, of course, the interests of British industry as well as British interests in Argentina are involved. Australia has not yet landed chilled beef in Great Britain and as frozen beef is not favoured there it seems unwise to press for any concessions.

Primary industries, in which the labour cost is high, such as dairy produce, butter, cheese, eggs, pig products, fruit, wine, brandy and malting barley, sugar, rice, hops, peas, etc., form a most important section of Australian production and would as a class benefit most from British preference.

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Some of them, notably apples and barley, are holding their own in the world markets without assistance. Others, such as dried and canned fruits and wine, enjoy certain preferences already, and great benefit might be obtained from the extension of the preference to types hitherto missed. Another group—sugar, rice, hops, peas—will probably benefit from preferences granted primarily for other parts of the Empire. But they are either so highly subsidised in Australia or their production is so small at present that they could scarcely be made the subject of a special request. Lastly there is the class of “semi-manufactures”—flour, soap, sole leather and timber sleepers. These represent practically the only manufactured exports; they would benefit from a continuance of the 10 per cent. emergency preference, and the same applies to base metals, in which the cost of labour is a big factor. Australians must, of course, admit that costs and high standards of living are factors which affect the need for preferences from Great Britain—a country with lower standards—and that a system is being established which is artificial and cannot be permanent. However, the indebtedness of Australia to the British people might make such assistance a measure of prudence.

At Ottawa, Australian delegates would be wise to concentrate upon the preferences which would be most fruitful and cause most expansion, namely, on mutton and lamb and dairy produce. If these industries were made profitable Australia's buying power for British goods would be increased. No list of minor concessions would be of much use if there were a failure in these major items.

Australia, April 7, 1932.

Postscript.—On May 13 the Governor of New South Wales dismissed Mr. Latta from whose department a circular had been sent to departmental heads forbidding them to pay money to the Commonwealth Bank under the Financial Agreements Enforcement Act. The Leader of the Opposition formed a Government, and a general election is to be held on June 11. The proclamations putting the Enforcement Act into operation were therupon suspended.—EDITOR.

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I. THE PARLIAMENTARY SESSION AND OTHER MATTERS

THE main pre-occupation of the session, so far as it has gone, has been finance. The controversy over the gold standard still dominates the field of politics and has become the principal issue between the Government and the Opposition parties. Officially the matter is still *sub judice*, as the Select Committee of the House of Assembly, which was appointed early in the session to consider whether the maintenance of the gold standard was in the best interests of the Union, is still sitting and taking evidence. But the open mind, which such an inquiry would seem to presuppose, has vanished in the stress of the political battle. The dissident voices which were raised within the Nationalist party in the early days of the controversy have been effectually silenced by the demands of party discipline. On the Opposition side there has also been a closing of the ranks, though one or two dissenters still stand apart from their colleagues.

In moving for the appointment of the Select Committee the Prime Minister informed the House that, whatever the report of the Committee might be, the Government would adhere to their policy of maintaining the gold standard. That indeed could not be left in doubt, as the only hope of their being able to maintain the gold standard lay in convincing the public of their determination and ability to do so. The Opposition, with perhaps equal reason, objected to the appointment of a committee whose

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report would be a foregone conclusion, and would in any case have no influence on the policy of the Government. Many, therefore, refused to take part in the enquiry. The report will probably appear towards the end of the session, but, while the evidence heard may compel some on either side to abandon familiar arguments, it has little chance of changing any convictions. The complaint which is mostly heard now against the maintenance of the gold standard is the scarcity of capital and credit in the country. Mortgage bonds are being called in, money on deposit with banks and other financial institutions is being withdrawn, advances on the best security are almost unobtainable. The opponents of the gold standard attribute this to the rush to buy sterling which followed the abandonment of gold by Great Britain. Capital, they say, has left South Africa to such an extent that business is being strangled. The Finance Minister in his budget speech estimated that since September last the transfer of money from South Africa in excess of the normal exchange transactions amounted to £9 million, but competent observers outside the Treasury put the figure much higher.

The policy of the Government is to maintain the currency on the gold parity of the British sovereign and to subsidise, at the expense of the taxpayer, the exporter of primary products, who is being most severely hit by the fall in world prices and the adverse exchange upon his dealings with countries whose currency is depreciated in relation to the old gold parity. The producer whose products find a market inside the country is protected as regards the external price by tariffs, and by other devices, which are more or less effective in proportion to the extent to which the internal market can absorb his product. The consumer, therefore, gets little if any benefit from the fall in world prices, while the advantage with regard to imported articles, which he might have expected to gain from the higher gold value of his currency, is largely nullified by the increase in the general customs tariff imposed in order to

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find the revenue which is required to meet the cost of the subsidies on exports.

The budget statement of the Finance Minister was looked for this year with more than the usual interest. The position which it disclosed is certainly serious. If it leaves us with the consoling thought that it is better than that of most countries in a similar state of development to our own, that is a consolation which we owe entirely to the continued high rate of output of the gold mines of the Witwatersrand. The Minister had to face a drop in his revenue estimates for the year ended on March 31 of £2,773,000, which brought the expected revenue for the year to £26,900,000, against which, after all the reductions in expenditure which he had been able to effect, he had to face an expenditure of £28,100,000—a deficit of £1,200,000. This, added to the deficit carried forward from the previous year, left a shortage on the revenue account of £2,100,000. The prospects for the year now current were worse than those in which the last budget had been framed, and he accordingly estimated for a revenue this year of £25,845,000, that is a reduction of £3,828,000 on the previous year's estimate and of £1,055,000 on the actual collections. The expenditure he put at £27,479,000. He was, therefore, left with a contemplated deficit on the current year of £1,634,000, which, added to the accumulated deficits of previous years, leaves the revenue account short by £3,734,000. This it is proposed to provide for by new taxation estimated to raise £3,535,000, the balance of £200,000 to be carried forward. Of the new taxation £730,000 is to be raised by an additional income tax of 1s. in the pound on the dividends of gold mining companies, a graduated surtax on interest derived from investments carrying a fixed rate of interest—the tax rising according to the rate of interest. The rest is to come from an increased custom duties, chiefly from a general *ad val.* rate of $7\frac{1}{2}$ per cent. in addition to existing duties on all imports, with certain special exemptions. This, however, does not

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represent the whole extent of the new burdens which the taxpayer will have to carry in this year of depression. A special customs duty of 5 per cent. is laid on all imports (subject again to certain special exemptions), the proceeds whereof are to go to a special fund from which is to be provided that portion of the subsidies on exports of primary produce which is not included in the ordinary estimates of expenditure. These subsidies are provided for, up to the end of October next, to the amount of £1,300,000 from the general revenue account, and £1,000,000 from the special levy of 5 per cent. Whether by the end of October the exporter of primary products will be able to dispense with the aid of subsidies may be open to doubt, and to that extent the balance of the budget is not assured. A further element of doubt arises with regard to the revenue estimated to be derived from the new customs duties. It is difficult to share the opinion of the Finance Minister that they will not affect the consumer but will be borne by the importing merchant out of the profits that he has derived from the exchange advantage accruing to him on imports from Great Britain and other countries whose currency has depreciated in terms of gold—profits which he has not yet passed on to the public. The general opinion is that they will increase the cost of living and act as an additional drag on our already languishing trade and industry, and will thus tend to defeat their own object as revenue producers.

The budget is balanced, at any rate on paper, but this is achieved not so much by reduction in the expenditure as by an additional load of taxation, on a community already bousing in the trough of unprecedented financial troubles. The estimates of expenditure for the year amount to £7,479,000, in which, as has been said, is included an amount of £1,300,000 to provide for subsidies on exports. If for purposes of comparison this is deducted, these estimates show a reduction of £3,210,000 as compared with the original estimates for the previous year. Of this reduction, however, £1,590,000 is accounted for by the

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estimated saving in respect of interest on government loans due in London owing to its being paid in sterling instead of gold. The estimated reduction, therefore, in the cost of the administrative machine—apart from the fortuitous profit on exchange—as compared with the estimates for the previous year amounts to £1,620,000. Apart from reductions in educational and other grants, the only serious curtailment of administrative expenditure is an all-round reduction in the salaries of public servants, rising from $3\frac{1}{2}$ per cent. on the lowest grades to 10 per cent. on the highest. The salaries of Members of Parliament are reduced by 10 per cent. and those of Ministers by 15 per cent. The general scheme of government activities, which many believe has now attained a magnitude in excess of what the country in normal times can afford, remains almost intact.

The Minister of Railways, in presenting his budget for the Department of Railways and Harbours, had an equally dolorous tale to tell. The railways and harbours are suffering from the drop in traffic due to depressed business conditions, and in addition the railways, like railways elsewhere, have to contend with road motor transport competition. The Administration commenced its operations for the financial year which closed on March 31 with a deficit carried over from the previous year of £679,000. The results for the year just ended are expected to show a deficit of £1,800,000. The current year, therefore, begins with an accumulated deficit on revenue account of roughly £2,500,000. No provision is made in the estimates for the current year to liquidate this deficit. It is simply being financed and carried forward in the hope of better times. For the current year the revenue is estimated at £25,900,000 and expenditure at £26,066,000, which would leave a deficit of £69,000. The expenditure estimates show a considerable reduction over the two previous years—reduced personnel, reductions in salaries and wages—but the estimate of revenue is generally regarded as reflecting an

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optimistic outlook scarcely warranted by existing conditions. It should be added that the expenditure figure quoted above includes working expenditure, depreciation and betterment, and interest on capital. In the railway budget, therefore, the position disclosed, though serious enough, will bear favourable comparison with that of State railways or even private railways in many other countries.

The results of the conference between representatives of the Union Government and the Government of India, which was mentioned in the last number of *THE ROUND TABLE*,* have now been made public, but it cannot be said that they bring us nearer to a permanent settlement of the relations between the Indian community here and the European population. Beyond the renewed expression of friendly sentiments, the only practical step that has been agreed upon is the joint consideration of schemes of land settlement in countries where the Indian would not be subject to the social and political disabilities which are imposed upon him here—schemes in which the wider experience of the South African Indian might be turned to good account by the Indian Government in its attempt to find new outlets for its surplus population. A joint enquiry by the two Governments is to be instituted, and it is to be hoped that out of it may come something which will enable Indians here, without loss of self-respect, to exchange their South African domicile for one where they will attain automatically a status which is being definitely denied to them here.

The financial depression through which the country has been passing is having its reactions in a general feeling of dissatisfaction with the existing political parties. Criticism of the Government at such a time is inevitable, but it is combined with a distrust of the party system as it exists here. The idea is very generally, if somewhat vaguely, held that our politics have come to be a mere battle of

* See *THE ROUND TABLE*, No. 86, March 1932, p. 427.

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personalities, in which the pressing needs of the people are neglected or relegated to the background. There is in some parts a more or less active propaganda for the formation of a "centre" party, led by persons who are not too deeply committed on either side to the old party controversies, which would give us a Government and a Parliament able to devote themselves to the actual problems of the day. So far this movement has failed to take visible form because no leader has emerged strong enough to break the existing bonds of party allegiance. But it is a symptom of a political malaise which might at any time take a serious development.

In Natal the spirit of political discontent has taken the form of a movement for secession from the Union. So far responsible public men have kept aloof from the movement, but there is undoubtedly behind it a strong popular sentiment, which, without any very tangible basis, is deeply perturbed by what it regards as the anti-British outlook and policy of the present Government. Natal has never been wholly assimilated by the Union. Its representatives came to the National Convention in 1909 strongly committed to the principle of federation, and only accepted the unitary constitution which was there decided upon with considerable misgiving. In Natal alone, of the four colonies which came into the Union, was the question submitted to a referendum, and although the vote went by a two to one majority in favour of Union, the opposing minority has never altogether come over. Natal in population and sentiment is predominantly British. It has never wholeheartedly put aside the outlook and affinities of British Colony for those of a South African Dominion. Consequently the rapid advances towards an independent status culminating in the Statute of Westminster have been regarded by a considerable section of opinion in Natal with something like dismay. The adoption of a South African flag, the agitation in some quarters for the appointment of a South African citizen as Governor-General, the

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conclusion of a trade treaty with Germany which gives her the advantage of any extension of tariff preferences granted to Great Britain, the activities of a republican section within the Nationalist party, even the proposal of the Government to change our currency to a decimal system, have all had their effect in irritating the sensitive nerve.

But perhaps the most serious cause of trouble has been the dual language. Before Union, outside the districts which were added to Natal from the Transvaal after the Anglo-Boer War, the Afrikaans language was to all intents and purposes a foreign language in Natal. The Act of Union laid down the principle of equality as between the English and Dutch languages, but that principle was not at first applied as requiring public officials to be competent in both languages. In consequence, in those parts of the Union where the English-speaking element was predominant the use of the other language spread slowly, and in Natal, where it was seldom heard, not at all. With the advent to power of a Nationalist Government the regulations requiring a knowledge of both languages from public officials were more rigidly enforced, and the impression was created in certain quarters in Natal that the language qualification was being purposely used to exclude from the public services anyone who was not of Afrikaner sympathies and descent. In Parliament the members from Natal with one or two exceptions do not speak or understand Afrikaans, and therefore cannot follow the speeches of members who use that language in debate. Parliament thereby loses in great measure that influence which it ought to exert in bringing opposing sections into direct contact with each other's point of view.

The threatened breakdown of the Provincial Council system has intensified and brought to a head all the apprehensions and suspicions which have beset this section of the Natal people since Union—that they are losing their identity as a British Colony in a larger body which is hostile to their traditions and disloyal to their allegiance, and that

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an alien language and culture is being thrust upon them. Out of this has come the movement, sometimes calling itself a secession movement, sometimes a devolution movement—demanding sometimes complete secession from the Union, sometimes membership on a federal basis. It is doubtful if more than a small proportion of the responsible citizens of Natal—even of those who applaud the movement at its public meetings—would commit themselves to either of these two objectives if it came to an actual test. The movement so far is largely inarticulate—a protest against economic distress and wounded national sentiment. But a wise Government would not on that account treat it with contempt, nor fail to take note of it as the symptom of a real trouble in the body politic, which, if not treated with sympathy and understanding, may go deeper and strike at the foundations of Union.

II. THE NATIVE POLICY OF THE UNION 1910-1932

CERTAIN legislative proposals which call for more than passing comment are at present under discussion. There is the Native Servants Contract Bill now before Parliament, and a draft proclamation issued by the Minister for Native Affairs under the Native Administration Act of 1927, amending and extending to Zululand the Natal Native Code. Between them they cover native land, labour, domicile, movement, and liability to arbitrary imprisonment. To grasp their full meaning, however, they must be put up against the background of South Africa's achievement in the sphere of native policy since the Union of 1910.

The debates on these measures have brought out sharply the antagonism between two rival points of view which are traceable very far back in the history of South Africa. One is the claim of the man on the spot that only those who are in daily contact with natives can understand them,

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or ought to be heard when their governance is in question. It is a view which leads too often to the conclusion that the black man is there for the benefit of the white. The other is the view of the man with the wider angle of vision which comes of standing back somewhat, who asserts that those whose sensibilities are blunted by daily contact, and whose apparent and immediate interests conflict with those of the tribesman, are the very last people to have the final word, and that in any event the native is an end in himself and, as such, entitled to a free and honourable place in a mixed society.

Once upon a time it was imperial officials, imported missionaries, and a fairly widespread body of opinion in the western Cape districts that upheld the latter view and imposed it with a fair measure of success on the Cape Colony. To-day the imperial power counts for little, the missionaries for hardly more, while western Cape members are told, in both official languages, by men from the old republics and Natal, that they do not know what they are talking about. In short, the old liberal Cape policy has been beaten back step by step, ever since Union twenty-two years ago ; it is now fighting a desperate battle in the last ditch against the illiberal policy of the newer north.

At the time of Union in 1910, the many, white, black, and coloured, who feared this very thing, were assured that the native policy of the Cape Colony would doubtless, by its inherent virtues, wean the rest of the Union from its frontier ways. Besides, what could go wrong under a Parliament modelled on those at Westminster and Cape Town ? This comfortable prophecy has been belied under both heads. Since Union the decay of parliamentary rule has gone on side by side with a definite retrogression in native policy.

The decline of constitutionalism can be dismissed shortly. It is sufficient to say that to-day the Union is virtually a unitary State under increasingly strict bureaucratic control ; the federal elements in its constitution,

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the bulwarks of local liberties, have been undermined, and the civil service, with its high traditions, especially in the Cape, has become more and more merely an instrument in the hands of the political party in power. The Senate House of Assembly, which began badly when the allocation of seats was arranged to favour the inexperienced north against the south, and everywhere the countryside against the towns, has not improved with age. Parliament, during the last six years particularly, has given away its powers wholesale to the Executive. Thanks largely to the contagion of arbitrary native legislation, the rule of law is waxing feebler and more fitful.

This sickness of elective assemblies is a widespread phenomenon in the present-day world; but in South Africa it has peculiar dangers because of the pressing nature of the native problem. The change for the worse in the relations of Europeans generally with non-Europeans in the Union nowadays is the outcome not so much of unchecked economic and social forces as of more or less deliberate political action. Not that this action was consciously directed towards that end, though there has been plenty of talk in responsible, and still more in irresponsible quarters, which suggests that the talkers could not help it and did not care overmuch if bad relations were the outcome of their policy. The evil has arisen from taking the short view.

Much of the post-Union native policy was foreshadowed by the majority report of the Native Affairs Commission of 1903-1905. In the main that report was the natural product of well-to-do land and mine owners, representatives of an acquisitive society hardened by pioneering experience, united for the moment with officials anxious for the labour that would carry their Five Year Plan to success by so developing mines, roads, railways and farms that South Africa would be raised rapidly to a higher economic plane than ever before. It pointed straight to

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communal parliamentary representation (if any) for the Bantu, a check on the purchase of land by natives, and the stimulation of the native labour supply by making an end of squatting on European farms.

Little or no action was taken on this report at the time ; the National Convention avoided as far as might be any discussion of the disruptive native question. Nor was anything notable done during the first few years of Union beyond the enactment in 1911 of the Mines and Works Act, which sought to regularise, in the Transvaal and Free State only, the practice whereby non-Europeans were shut out from skilled and semi-skilled employment by the Colour Bar. In 1913, however, mainly in response to pressure by the Free State, where the Bantu's right to acquire land was already more restricted than elsewhere, a Native Lands Act was hurriedly passed at the tail-end of the session.

The fundamental ideas behind that law were the territorial segregation of white and black, and, incongruously enough, the even sharing out of the native labour supply among European farmers. Outside the reserves and the urban areas, many thousands of Bantu lived upon European farms. They lived either as squatters, farming what had often been their ancestral acres on shares with the owner, or making him a money payment ; or else they lived as labour tenants rendering, themselves and often their families too, so many days' service each year, usually three months in the aggregate, the days being chosen at their lord's discretion. The Lands Act aimed first at eliminating the squatter, who was virtually given the choice of becoming a tied labour tenant or of going elsewhere. Secondly, it forbade the acquisition of land by natives outside the reserves, but, as some compensation for this lost liberty, it promised that sorely needed additional native areas should be marked out.

A judicial decision saved the right of natives to acquire land in the Cape Province, and in other parts the harshness

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of the law was modified slightly by administrative action. But the fact remains that the promise of 1913 is still unfulfilled in 1932 ; the additional reserves have not been granted, and each year that has gone by, as Europeans have spread over the land, has added to the impossibility of any general territorial segregation of the two races. Each year, moreover, as the existing reserves have become more congested, has added to the Bantu's economic distress and distrust of his European rulers. Responsibility for this failure must be shared by all Union Ministries ; but whereas the Botha-Smuts Ministries could plead that from 1914 till 1919 they were harassed by war and rebellion, and again from 1922 till 1924 by armed revolt, falling revenues and a dwindling parliamentary majority, the Hertzog Ministries can plead little of the kind. From 1924 till 1929 at least they enjoyed comparative prosperity and, throughout, profound peace and a secure majority. Their difficulties have arisen from complications due to the lapse of time and the uncompromising attitude of most of their own supporters and many of their political opponents.

In its later stages, the war wrought a revolution in South Africa as in other parts of the world. Manufactures sprang up, and natives, loosened from the soil by the operation of the Lands Act, drifted into the humbler ranks of the new industries side by side with Europeans, Afrikaners for the most part, similarly uprooted. The rank and file of the trade unions, on the Rand particularly, thus became more and more northern Afrikaner, and therefore more resolutely opposed than ever to any recognition of native claims to equality of opportunity, and also naturally nervous of low-paid native competition. Meanwhile prices soared and European wages rose also ; but native wages even in the towns remained well-nigh stationary. In 1918 the white miners on the gold mines of the Rand were strong enough to extract a *status quo* agreement which checked their employers' attempt to admit non-Europeans to semi-skilled occupations, while the men at the Johannesburg

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burg power station successfully held the community to ransom. Thereupon the poorly paid Johannesburg sanitary "boys" struck, but, being natives, found themselves subject to the penal clauses of the Masters and Servants law. That law, of old standing in all the provinces, indeed provided safeguards for the native employee, but in actual practice provided many more for his employer. In any case the infliction of criminal penalties for breach of civil contract reminded natives everywhere that they had not the same freedom to higgle in the market as their European competitors.

Something was done to improve native wage rates on the Rand, with encouraging repercussions on rates in other parts. Then, in 1920, during a lucid interval between two periods of turmoil, General Smuts endeavoured to put the administrative side of the native question upon a sounder basis. The Native Commission of three experienced Europeans then set up to advise the Premier, and the conferences of chiefs and representatives of native associations since summoned from time to time, have done excellent work. But the local councils of magistrates and Bantu on the Transkeian (Cape) model, then prescribed for general application, could not benefit the natives scattered up and down upon the European farms. And according to the Lands Act it was they who constituted the real problem. For the rest, the promise of 1913 was not implemented. Additional reserves were to be allocated only after the economic and administrative relations of white and black should have been put upon a better footing. And when would that be?

Signs of unrest were not wanting: passive resistance by native labourers on one or two of the Rand mines, a riot by students at the native school at Lovedale in the eastern Cape Province, a serious native strike at Port Elizabeth during which unauthorised Europeans fired upon the strikers indiscriminately, and finally, in May, 1921, the tragedy at Bulhoek, also in the eastern Cape, where the

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police had to fire in the last resort. The effect was deadly upon a swarm of Bantu enthusiasts inflamed by the more heady portions of the Old Testament.

The Bulhoek calamity was, humanly speaking, unavoidable. The same cannot be said of much that followed. Early in 1922, a serious European revolt took place along the Rand. In some of its developments it was a revolutionary, in others a republican movement, but its primary cause was the determination of European workers to maintain the Colour Bar, in spite of the fact that the courts had recently declared regulations framed under the Act of 1911 *ultra vires*. The rising was marked by wanton attacks on mine natives, but in the end it was quelled with much bloodshed. The Colour Bar was relaxed somewhat; the mines were reorganised, and the Labour party was driven over to an alliance with the Nationalist party. This apparently incongruous alliance of urban Socialists with rural Tories was held together primarily by a determination to make South Africa safe for the white man, a determination strengthened by alarmist conclusions erroneously drawn from the 1921 census that the blacks were increasing so fast that in a comparatively short time they would swamp the whites.

So matters drifted on. In May, 1922, sinister tidings came from South West Africa of a whole-hearted exercise of military force by the civilian administrator against a petty tribe of Bondelswarts, and a subsequent prolonged passage of arms with the Mandates Commission of the League of Nations. Then, in 1923, the Smuts Government tried to regulate the flow of uprooted natives into the towns. The Urban Areas Bill as presented embodied the views of many of ^{even} natives who had been consulted; the Act as it emerged reflected the pressure which South African Ministries find it so hard to withstand. Wide powers were given to municipalities to segregate natives in separate townships, even in areas which had hitherto known no such practice, and instead of the expected freehold in such townships,

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natives were offered only leasehold. In other words, European opinion in the mass would not hear of any extension of native land ownership. The towns were to be European, the presence of Bantu there a merely temporary encumbrance.

In the middle of 1924, the Nationalist-Labour Pact Government took office and immediately introduced a Colour Bar Bill, restoring in a more explicit form the restrictions on non-Europeans in the north that had been declared *ultra vires*. It also readjusted the incidence of native taxation in such a way as to relieve the urban native in the north, but to increase the burden on all in the south, and to leave natives everywhere, in practice, dependent in large degree for funds for their own advancement on such portion of the proceeds of native taxation as had not been devoted to the general governance of the Union.

For the rest, responsible Ministers showed caution and moderation. After the session of 1925, General Hertzog toured the Cape Native Territories and, on his return in November, published a programme of native and coloured legislation. This programme was, and is, embodied in four Bills, none of which has yet become law. These Bills have been altered in detail more than once, but their general tenour has not been changed. The Representation of Natives Bill seeks to abolish the Cape native franchise of 1853-92, and to give the natives of the Union a meagre and wholly European representation in exchange. The Native Council Bill proposes to set up a carefully controlled deliberative native sub-parliament as a coping-stone to the Smuts Act of 1920. The Native Lands Amendment Bill fulfils in a measure the promises of 1913, but instead of new reserves for the exclusive use of natives, it merely provides "released areas" in which natives and Europeans may scramble with one another for the land. Finally, the Coloured Persons Rights Bill proposes, in the very long run, to put the mixed coloured folk (by definition all who are not Bantu) in a position of political equality with Europeans.

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It was already apparent in 1925 that the programme would be fiercely challenged, by political opponents on the one side, and by some from within the Nationalist camp on the other. For to offer the Bantu even the smallest representation, or to propose to treat the coloured men for political and economic purposes as the civilised folk they undoubtedly were, was to fly in the face of northern opinion, and much that was not northern. Already, in September, Mr. Tielman Roos, Minister of Justice and the Premier's chief lieutenant in the Transvaal, had inveighed publicly during a Pretoria bye-election against non-European voters, and had noted that many people thought the Bantu had too much land as it was.

No action was taken in 1926. In the session of 1927, the opposition was so strong, perhaps also the picture of the condition of the great black majority of the population drawn in the belated report of the Economic and Wage Commission of 1925 was so disturbing, that all four Bills were referred to a Select Committee. There they remained till the beginning of 1929. Meanwhile, in 1927, by the Native Administration Act, the Ministry conferred upon the Governor-General, that is, upon itself, the widest discretionary powers over every Bantu in the Union outside the Cape Province, even to the extent of power to cancel, without cause shown, exemption from these restrictions granted to any individual.

The Administration Act was the application of Natal-Zululand methods to other parts of the Union. But whereat, in times past, the Governor of Natal had exercised these powers over tribal natives, now in many parts the Bantu had developed so far that many of them were trying to form trade unions in imitation of the Europeans. The most notable of these bodies was the Industrial and Commercial Workers' Union, an amorphous body but sufficiently alarming to many Europeans by its novelty and its implications. Meanwhile, in 1928, the Labour party had split, one half cleaving to the Ministerialists, the other drifting of

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 into opposition. At the end of the year, Mr. Madeley, one of the Labour Ministers, received a deputation of the I.C.U., and for that error was obliged to resign and make way for another Labour man.

Such was the prelude to the joint sitting of both Houses which took place in February 1929 to vote upon the revised Native and Coloured Franchise Bills, that is, on the fate of the Cape franchise. The voting on the former failed to give the two-thirds majority demanded by the South Africa Act. The latter Bill was therefore withdrawn, and the Premier fell in with the already expressed desire of Mr. Roos, and announced that the general election due in the middle of the year would be fought to ensure "the preservation of the white race." It was, and it gave the Nationalists for the first time a clear majority over all parties.

Earlier in the session of 1930, General Hertzog had taken the wise but unprecedented step of referring his Native Franchise Bill to a joint Select Committee of both Houses with power to take evidence. The measure still remains in the hands of that Committee. Meanwhile, the zealots of the Nationalist party have succeeded in getting something of what they wanted along another route. As far back as 1926 some of them were demanding European women's suffrage, frankly to counterbalance the Cape non-European male voter. Two years later, General Hertzog touched upon the same subject indirectly by promising that coloured women should share in any franchise given to coloured men. Two years later still, in 1930, he had been obliged to give the franchise to European women only throughout the Union. A year later the inevitable sequel followed, and the republican privilege of one vote to every white man was extended to those who could not attain to the very moderate pecuniary and educational qualifications hitherto demanded in the Cape and Natal. Thus the Cape coloured women were disappointed, a wedge was driven deeply into the Cape fran-

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chise and incidentally into the South Africa Act, and those best qualified to know were given every ground to expect a marked accession in Nationalist voting power, certainly in response to any such cry as the Black Peril.

So much for the coloured woman. The fate of the coloured man is still in the hands of the joint Select Committee, but it is also being canvassed elsewhere.

It was in keeping with the franchise policy of 1930-31 that the census of 1931, which by law should have been one of the decennial numberings of the whole population, was at the last moment and on the grounds of economy confined to Europeans only. A census of this latter kind takes place every five years to provide the data for the re-allocation of seats in the Assembly, and to that extent the census of 1931 will prove useful. But, for the rest, by omitting three-fourths of the population, it condemns us all to work in the dark, with the Premier's native and coloured programme (inspired largely by the census returns of 1921) still in the balance, an Urban Natives Commission still sitting, the arguments of the Economic Commission of 1925 still unanswered and its conclusions unfaced, and a very grave economic situation developing which, world causes apart, is due to the notorious maladjustment of our economic life.

Since 1918 the Union has adopted a number of measures to regulate its new manufacturing activities—factory and wage Acts, apprentice, juvenile advisory, industrial conciliation, and wages boards and so on. Hence considerable numbers of European employers and workmen are organised and protected. Not so in many cases non-Europeans as a body, still less the Bantu in particular. Except in the Cape non-Europeans are excluded from trade unions and so cannot share in the benefits of some of these laws. From some again the Bantu are cut off because they do not apply to agriculture and domestic service, their two great outlets other than the mines, which are specially provided for. In practice also the conciliation, wage board and apprentice-

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ship Acts tell against them. Further, the white labour policy pursued by the Pact Administration, more particularly on the widespread State railways, displaces them in favour of Europeans who are subsidised by the general taxpayer to undertake low-paid tasks. Finally, the Bantu are hit twice over by the protective tariff, which was begun tentatively by the South African party Government in 1921, and pushed outward and upward by the Pact since 1925 in the cause of economic self-sufficiency. The enjoyment of a protective duty by an industry depends in some cases on its employment of civilised, that is, non-Bantu labour, while any tariff must press hard on a class lowest in the economic scale, whose freedom of movement and choice of occupation are as restricted as those of the Union's natives.

A protective policy which demands above all a good home market sorts ill with a system which keeps the mass of its people at a terribly low standard of life. The native legislation before Parliament this session is hardly calculated to raise the standard.

The Native Service Contract Bill gives way to long-expressed demands. As far back as 1919, Nationalists were demanding that no native be permitted to move from home without a permit from his master; in 1925 again, to the unconcealed annoyance of General Hertzog, others, supported this time by South African party men of British stock from Natal and the eastern Transvaal, urged that labour tenants be brought under the criminal sanctions of the Masters and Servants Act. That proposal was talked out by Labour. But now, in 1932, General Hertzog has given way and sanctioned nearly all these things in a measure on which neither the Native Affairs Commission nor the Native Conference have been consulted, and which, in advance of the expected report of the joint Select Committee, touches his own native programme all along the line.

This Service Contract Bill deals with natives living out-

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side the reserves and urban areas in the Transvaal and Natal. Its effect, wherever it is put into force by the Governor-General, will be to oblige landlords, whether individuals or companies, to transform their comparatively free native squatters into tied labour tenants. This will be done by imposing on the landlord a swinging licence duty of £5 per annum for every male able-bodied native living on his farm who has not been in his service for so many months in the aggregate during the year. As an alternative, he must get rid of his squatters, presumably to other farms, or to the reserves which are already over-crowded, or to the towns which are busy shutting them out or otherwise limiting their freedom of action. Even Cape Town, where the battle for civil liberty was fought and won four generations ago, is contemplating seriously the adoption of the pass system for native men and women, which has proved to be such a burden and such a recruiting agency for the gaols in the north.

The second aim of the Bill is to tighten up the law governing labour tenancy, in minor matters in favour of the native tenants whose bargaining powers will have been reduced to a minimum by what has gone before, but in all major matters in favour of the landlord. The usual period of service envisaged is one of six months spread over the year instead of the hitherto customary three, though lesser periods as short as three may be prescribed by authority. No native is to move away from his home in search of agricultural or domestic employment without an identification card. Native guardians (and the term covers a multitude of relationships) may bind their dependants, male and female, without their consent, to work anywhere in the Union till they are eighteen years of age. Families are to be held responsible for breach of contract by any one of their members. Breach of this—a civil contract—is at last made subject to the penal sanctions of the Masters and Servants Law, which is now to include, as a novelty, limited whipping by order of the magistrate for lads under eighteen.

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years of age in addition to or in lieu of fines and other penalties.

It may be conceded cheerfully that many clauses in this Bill will appear less startling to South African natives and Europeans than to readers overseas accustomed to a homogeneous society and a twentieth century social structure. For instance, the idea of collective family responsibility is deeply rooted in native custom ; native heads of families desire to keep stricter control over their children, over the girls particularly ; further, as the Economic (the so-called Clay) Commission of 1925 abundantly proved, South Africa's rural economy belongs in many parts, not to the seventeenth century as Mr. Bernard Shaw suggested after his recent visit, but to the late fourteenth, the period of feudalism in decay. It may also be conceded that the squatter system has its attendant evils, especially on the farms of absentee landlords. But when all is said and done, this law will give thousands of Bantu the choice between becoming vagrants dogged by all the pains and penalties that attend the masterless man with a swarthy skin in this Dominion, or of becoming serfs-at-will denied the customary security of tenure enjoyed by serfs in most other times and places. And the law sees to it that even the unwilling landlord shall be obliged to put this hard choice before his clients.

The Contract Bill has been attacked vigorously in a manifesto signed by Sir James Rose-Innes and Sir Clarkson Tredgold, ex-Chief Justices respectively of the Union and of Southern Rhodesia, and by the heads of nearly every Christian denomination in the country. It has been opposed by General Smuts, who observed that it would not even help the farmers, by enlightened Transvaal members like Mr. Duncan and Mr. Hofmeyr, and by the compact little group of Cape Peninsula members which has been strengthened recently by the accession of the ex-Independent, Mr. Alexander, probably the sole out-and-out Liberal the Assembly can boast. On the other hand, the solid phalanx

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of Afrikander Nationalists takes it all for granted, and it has the support of many South African party men of British and other stocks, notably of the Natal members, though the whipping clause stuck in the throats of some of these last, and drew forth a protest from the Missionary Conference of the Dutch Reformed Church.

There remains the proclamation which the Government proposes to issue providing a revised code of native law for Natal and Zululand. Without going into details it is sufficient to note that any native commissioner may arrest a native for non-compliance with an order and punish him summarily with no appeal to the courts, but merely a report to the commissioner's superior. Similarly, the Governor-General, as Supreme Chief, may imprison any native "dangerous to the public peace" and keep him in prison for three months. Only at the end of that period may the prisoner appeal to the Supreme Court, and as far as can be seen there is nothing to prevent the authorities from re-arresting him for another term just before the three months is over. Finally, "neither the Supreme Court nor any other court of law, shall have any jurisdiction to question or pronounce upon the validity or illegality of any act done by the Supreme Chief in the exercise of his power." . . . *Ave Cæsar!*

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NEW ZEALAND

I. THE EXPORT CREDIT POOL

THE publication on December 24 of the Export Licences Order, 1931, under the Board of Trade Act, 1919, occasioned much surprise and speculation and not a little uneasiness, in spite of a reassuring statement by Mr. Forbes, the Prime Minister, which accompanied it. The object of this order was to compel exporters to take out licences for all goods which are to be sent overseas, and to have all exchange credits obtained by the sale of such goods pooled under the control of the Associated Banks. The measure was, as Mr. Forbes explained, the direct outcome of the financial difficulties which had compelled Great Britain to abandon the gold standard. The huge withdrawals of foreign balances, which had left the London market bare, dictated, he said, "an abrupt change in our financial plans." Our overseas obligations (amounting to about £8,000,000 a year, with the addition of £4,000,000 of Treasury Bills shortly due) must be met, as they fell due, from New Zealand funds.

The exchange requirements of the Government (the Prime Minister pointed out) will be large, and in order to ensure that sufficient London credits will be available for the purpose, the Government, after a careful review of the whole position, has reached the conclusion that it is necessary to introduce a scheme for conserving the exchange resources of the Dominion. In the national interests the banks have agreed to pool their exchange resources so as to be in a position to meet the Government's requirements, and the scheme embodied in the regulations just issued was drawn up for the purpose of bringing all exchange credits arising from the sale of exports into the pool.

It was found that the best way of doing this with a minimum of inconvenience to the commercial community was by licensing exports. Exporters, however, will continue to receive, as heretofore,

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the current rate of exchange on remittances from abroad and otherwise will be put to very little trouble. . . .

The measure is an extraordinary one, but we are passing through extraordinary times when prompt action is necessary to cope with the rapidly changing circumstances. I am sure that the people of the Dominion will agree that New Zealand must honour her bond, and this control of the exchange resources is merely for the purpose of ensuring that the Government is in a position to meet all commitments on the due date.

No alteration in the exchange rate was made by the arrangement concluded between the Government and the banks, nor did the Government itself assume control, but the competition of outside agencies was excluded. The rate had been fixed by the banks at 10 per cent. early in 1931, and the very slight extent to which the outside rate had diverged from this figure suggests that, on the basis of supply and demand, it was a fair rate. The grounds for the policy of the banks were explained by Mr. Grose, the General Manager of the National Bank of New Zealand, and Chairman of the Associated Banks.

Practically all last year (he said in a statement published on February 20) the bank telegraphic transfer rate on London was 10 per cent. premium. If this rate had been too high or too low the outside rate would have shown a marked divergence, for there was a considerable outside market then. But when London funds were much in demand the outside rate was only slightly above the bank rate, and towards the end of the year, when London funds were not in such demand, the outside rate was slightly below the bank rate. Taking this into consideration, and also that a steady rate is more equitable for contracts than a too sensitively fluctuating rate, it is clear that on the basis of supply and demand the bank rate was correct.

The trade figures for 1930 showed an excess of exports of a little under £2,000,000, which was altogether insufficient to cover interest and debt service. Early in 1931 the rate was increased from £5 to £7 10s., and a little later to £10 premium, which rate has continued. The increase in the rate was mainly to restrict imports, and the calendar year 1931 showed an excess of exports of over £10,000,000, which, though still insufficient, was a strong move in the right direction.

The cruel plight of our primary producing industries and the peril in which it involves the whole country

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have certainly not been overlooked by the Government. Its two leading figures—Mr. Forbes and Mr. Coates—are both farmers, and the following statement expresses the view of the Minister of Finance, who ranks next to them in authority.

Over and above the budget problem (said Mr. Downie Stewart in his Supplementary Financial Statement on October 6) there is imperative need for rendering some assistance to the farmers if they are to stay on the land and if production is not to decline rapidly, and, indeed, if we are to avoid a national disaster in a general breakdown of the farming industry. While prices of primary products remain at their present level it is, of course, impossible to restore the farming industry to a condition of prosperity. But in so far as it is possible to assist the farmer, it is in the interests of the whole community that funds be found from some source for this purpose.

The three great problems with which the country is faced are, therefore, the precarious position of the farmer, the position of the public finances, and the great and chronic problem of unemployment. These problems are inextricably interwoven, and they constitute a menace to the whole stability of our social organisation.

But for the present the other measures that the Government have in hand for the relief of the farmer, and indeed all other political issues, have been dwarfed by the powerful agitation against the Export Licences Order, which has seriously embarrassed, and was even considered likely to divide, the Cabinet. On January 13, a deputation representing the Meat Producers Board, the Dairy Board, the Sheep-owners Federation, the Fruitgrowers Federation and the Farmers Union waited upon the Prime Minister, after a conference at Wellington, to protest against the restrictions upon exchange and to demand that the producer should be given free access to the world's market. Mr. David Jones, a member of the Meat Producers Board, who had to resign his position as Minister of Agriculture after losing his seat at the general election, was the chief spokesman of the deputation.

When the Government went to the country (said Mr. Jones) it asserted that it was essential that the cost of production should be reduced to enable the produce of New Zealand to compete in the

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markets of the world. The Government Statistician's figure of the producing cost was 1,500, whereas the selling figure was 787. Until those figures were brought fairly close together it was quite impossible for the farmers of New Zealand to produce and live in competition with the world. . . .

The position of the farmers was more serious to-day than it was last year, because last year a large number of the farmers had a certain reserve of capital which they could trade upon, but that reserve had now gone. The conference was unanimously of opinion that unless something is done to relieve or improve the position of the farmers by some means we are not very far away in New Zealand from a very serious collapse as far as the financial position of the farming community is concerned.

The conference felt that the farmer on really first-class land, whose liability was not too great, would probably get through all right; that the farmer on second-class land, if he was thoroughly expert, would be able to pay his way, but that was questionable in some cases. As far as the farmer on third-class land was concerned—and this point was of special interest to the Government in connection with its own land—it was felt that he had not a chance of getting through. When they spoke of third-class land, they were of opinion that over 10,000,000 sheep in New Zealand to-day were being farmed at a loss to the owner. That was a statement that the Government could prove from their own figures in connection with the high country. The rents were not coming in to-day from that high-country sheep land.

In this critical state of affairs, when a marked increase in production was essential, Mr. Jones argued that anything tending to aggravate the situation would be against the interests not only of the farmer but of the whole country, and the conference considered that the Export Licences Order would have this effect, as it would stop competition for the export exchange and thus hinder the exchange from finding its own level. The New Zealand farmers were in competition with farmers of other countries who had a free exchange and were obtaining the full benefit from it to-day.

The conference held the opinion (Mr. Jones continued) that if the farmer were given the full value of the exchange by means of a free market, it would mean setting free a large amount of money, which would mean increased employment and more production. It would also mean increased revenue to the Government. The

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conference maintained unanimously that in their recommendation they were taking the long view—really the only view—that it was impossible to carry on farming in New Zealand successfully unless the farmers got the bonus which they would receive from the higher exchange rate. It would also be an advantage to the country. Our opinion is that the embargo should be lifted and we should be free, as Australia is, and as Great Britain and other countries are.

The example of Australia was naturally made much of by those who spoke after Mr. Jones, and the opinion was expressed that if the exchange rate were to be made free it would rise to the highest Australian level, viz., 30 per cent. In the controversy that followed this interview, indeed, both sides were far more concerned with raising the rate to 25 or 30 per cent. than with freeing it.

In reply to the deputation the Prime Minister contented himself with saying, in rather more precise language than before, that the banks had found themselves unable to guarantee the amount required by the Government unless the whole of the export trade passed through their hands; that the control of the rate, which was still left to them by the Order-in-Council, would not be interfered with by the Government; and that a 30 per cent. rate would increase the cost of transmitting the £12,000,000 payable by the Government in London this year from £1,200,000 to £3,600,000, but that the matter would receive its very serious consideration.

II. THE ECONOMIC COMMITTEE'S REPORT

THE silence of Ministers on a question which after this interview became the subject of a very keen controversy suggested a division of opinion, and this view was strengthened by the Prime Minister's announcement on February 12 that the Cabinet had appointed a committee "to examine the economic and budgetary position of the Dominion." The personnel of the committee is as follows:

Dr. James Hight, formerly Professor of History and Economics

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and now Professor of History, Canterbury College (Chairman); Dr. D. B. Copland, Professor of Commerce, Melbourne University; Mr. A. H. Tocker, Professor of Economics, Canterbury College; Dr. H. Belshaw, Professor of Economics, Auckland University College; Mr. A. D. Park, Secretary to the Treasury.

The chief objections to the composition of the committee were that it did not include a banker, and that when Dr. Copland visited New Zealand last year he was in the employ of the Bank of New South Wales, the strongest advocate of high exchange in Australia; further that he himself had been publicly advocating that policy in the Dominion.

With the exception of certain sections dealing with the budget, which are being held back until the Minister of Finance is ready to produce his Financial Statement, the report of the committee was laid upon the table of the House of Representatives on March 4. It is an able, lucid and comprehensive document which, in 36 pages and an appendix of 18 tables and several graphs, sets out the economic troubles of the country and discusses possible remedies. Although differences of opinion permitted "no specific recommendations," the balance of its argument, from which Mr. Park alone dissented, was strongly in favour of a high exchange. The principal basis of New Zealand's prosperity has always been her external trade. "Nearly 40 per cent. of her income," says the committee, "comes from exports, and of these 94 per cent. are pastoral and dairy products. The course of prosperity in New Zealand has been determined largely by the movement of export prices and overseas borrowing." These two causes gave the Dominion almost unbroken prosperity from 1895 to 1921, and during the next eight years export prices were still good; but in 1930 they fell heavily and the mischief was aggravated by the failure of other prices to fall in sympathy. The value of farm production, which was £82,100,000 for the year ended June 1929, was only £54,000,000 for the year ended December 1931. "The main problem in New Zealand," continues the report,

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"is to remove the disparity between export prices and internal prices and to adjust her economy to a lower level of overseas borrowing."

The national income, which was estimated at £150,000,000 in 1928-29, is now about £110,000,000 and is still falling fast. Of this loss of £40,000,000, about £28,000,000 is estimated to have fallen upon the farmers, but urban industry has also been severely hit. The public revenue has suffered to much the same extent as the national income, the decrease being about 27 per cent., and the burden of interest charges has been increased by the fall in export prices. "About 1,600 units of exports," says the report, "are now required to pay the same interest bill as was paid by the sale of 1,000 units in 1928-29. In 1928-29 about 16 per cent. of the national income was required to pay taxes and rates as against 26 per cent. of a much smaller income in 1931-32."

Approaching the general problem of readjustment, the committee declares that the fundamental issue is "to restore the spending power of farmers by causing profits to emerge"; and that the crux of the problem is "to remove the disparity between farm costs and farm selling prices." The removal of this disparity would restore the farmers' spending power, enable them to purchase with their reduced income the same quantity of goods and services as before, and thus bring industrial output back to its former level. But this result cannot be attained while the loss is borne mainly, as it is at present, by the primary producers and the unemployed. An equality of all-round sacrifice is required in place of the piecemeal methods of economies and taxation hitherto employed, and the more rapid the readjustment the quicker will be the recovery and the smaller the loss.

The committee then proceeds to examine the exchange mechanism of New Zealand and its working, the effect upon the budget and export prices of the present exchange rate (10 per cent. above parity with sterling) and the probable consequences of restoring the gold standard or raising the exchange rate to 40 per cent. The arguments

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with regard to the relations of the low and the high rates of exchange to economic readjustment are summarised in the following paragraph.

The present 10 per cent. exchange rate (says the committee) discourages imports and helps to sustain export production by adding to the gross income of exporters. In general, an exchange rate above parity will benefit exporters, because the addition to gross income more than offsets any increase in local costs through the higher exchange rate. Such a rate also sustains the money value of national income above its level at parity with sterling or at parity with gold. Thus at 40 per cent. exchange national income is estimated to settle at £112,000,000 compared with £80,000,000 at parity with sterling and £90,000,000 at the present 10 per cent. rate. The additional national income sustains revenue at a higher level and more than compensates for the increased exchange charge on the overseas debt service, both State and local body. By sustaining a higher price level than would be possible at parity of exchange, a rate above sterling sustains security values and strengthens the position of financial institutions whose liabilities are in fixed money claims and whose assets vary with the price level. By raising the level of export prices in local currency the rate above parity with sterling lessens the adjustment in fixed charges, wages, and salaries that have to be made to restore the equilibrium between costs and prices in export production. . . . At parity of exchange the reduction in costs which would restore profit in export production and leave exporters with the same loss of real income as the rest of the community would be 35 per cent. It would be more than 25 per cent. at the present 10 per cent. exchange, 15 per cent. at a 40 per cent. exchange rate, and 50 per cent. at parity with gold. It is thus easier to make an adjustment at a rate above sterling than at parity with sterling or with gold.

As regards the £9,000,000 that the 40 per cent. exchange would add to the costs of imports in New Zealand currency, the committee argues that there would be no additional cost to the community as a whole. Income is transferred from some sections of the community to exporters. This transfer is a matter of adjustment within the community itself. Nor will there be any injustice to importers, since they can pass on the additional cost to the community, and the high rate will not reduce imports below the quantity that the community can afford to buy.

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The report next considers the effect of a high exchange rate upon the Dominion's credit overseas :

This (it says) is a question upon which opinion varies. In the immediate future the Dominion's credit abroad would be adversely affected, because the rise in the rate would draw attention to the gravity of the economic situation in New Zealand. This is a point for consideration in connection with necessary loan operations overseas. If, however, the situation was being met with courage and determination, and the country demonstrated its capacity to restore sound trading conditions and meet its external obligations, national credit would recover even if the higher rate be maintained and if the currency be devalued.

A warning is, however, given that the mere raising of the exchange rate would not be enough, and that "a very high rate might lead to lack of confidence in the currency and cause considerable financial disturbance." The 40 per cent. rate, which is the basis of most of the committee's calculations and is 10 per cent. higher than the maximum demand of the farmers, it evidently considers a high, though not a very high, rate. But, whatever the rate, it insists that adjustments in fixed charges, rent, wages and public finance will also be needed.

The rigidity of fixed charges at a time of falling prices is considered by the committee both to hamper industry and to prevent the equitable distribution of the loss over the whole community. It points out that, except in cases where there have been voluntary concessions, the recipients of fixed incomes are actually better off than they were before owing to the fall in the cost of living.

An adjustment of fixed incomes (they say), whether by means of a special levy or reduction in such incomes, would not impose undue hardship upon the recipients. This adjustment might be facilitated by a special duty on fixed income elements, the extension of the Mortgagors Relief Act or, in the case of public debt, by further income-tax or by conversion operations. Any reduction in private interest should be all-inclusive, covering interest upon goods sold under the time-payment system, as well as on interest under mortgages, urban or rural. Similar conclusions apply in respect of rents. A reduction of 20 per cent. in fixed money claims would make a sub-

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stantial and equitable contribution towards bridging the gap between costs and selling prices.

Having undergone a 10 per cent. cut last year, wages are treated in a different manner in order to arrive at the same result. The decline of 11.5 per cent. in the award rate of money wages between 1929 and September 1931 is almost exactly balanced by the decline of 11 per cent. in the cost of living.

During the same period (says the report) the community has incurred a loss of real income of from 10 per cent. to 15 per cent., and a further reduction of 10 per cent. in wages and salaries* would be necessary to bring wages down to conform with the real loss in national income . . . In view of the changed economic situation undue restrictions on working conditions, which may have been appropriate in the past, should be relaxed.

In what is in effect a dissenting judgment, Mr. Park, the Treasury representative on the committee, expresses his general concurrence with the parts of the report that describe the existing economic position and prove the need for an all-round adjustment of costs to restore the economic balance ; but he qualifies it by some important reservations which may be summarised as follows.

As regards the effect of changes in the exchange rates, he points out that the hypothetical comparison of the effects of different rates takes account of the ultimate effects only, and that before stabilisation was reached at any of the assumed levels it was very likely that the factors on which the hypothesis was based would have undergone a considerable change. He particularly disputes the contention that there would be a net gain from an increase of the exchange rates ; he is, on the contrary, convinced that the immediate effect would be far greater budgetary difficulties. An exchange rate of 25 per cent. would mean an increase in the Government's expenditure for the

* In the official summary of Section XI from which this quotation is taken the words "and salaries" appear to have slipped in by mistake. Salaries are not mentioned in the section itself nor elsewhere in the summary.

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next financial year of £1,500,000, a loss in customs revenue of another £1,500,000, and an indirect loss in income tax and other items of revenue of perhaps £500,000, making an adverse total of £3,500,000.

Referring to the future of the currency, Mr. Park reminds us that other countries have devalued their currencies, but only apparently by way of recognition of an existing depreciation. To fix intentionally and in advance the point to which depreciation is to go is a very different matter, even if it could be assumed that it is possible to control depreciation and check it at such a point, an assumption which is not borne out by the experience of other countries. Moreover, to raise the exchange rate artificially above the level required to balance external receipts and payments amounts to an intentional depreciation of the currency, and the proposal to use funds accumulated in London, for the purpose of maintaining such an artificial balance, would, Mr. Park contends, certainly prove costly and perhaps impossible. There might, moreover, be repercussions that cannot be foreseen. Besides, the country, he considers, badly needs the reduced volume of imports that is at present obtainable in exchange for our exports, but this proposal would still further reduce it by raising the prices of imports. To raise the exchange rate for the benefit of one section of the community at the expense of the rest would establish a precedent which might later lead to similar demands from other sections, with disastrous results in so far as confidence in the currency is concerned. The depreciation of our securities in London, too, which naturally follows a normal rise in the exchange rate, would be greatly increased by an intentional depreciation of the currency, and this would prevent fresh borrowing abroad and embarrass us in dealing with maturing obligations. Finally, says Mr. Park,

whatever the exchange rate may be for the time being, any change in the currency laws should be considered only when sterling is again on a permanent basis and general economic stabilisation at

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some level has actually been reached in the Dominion. New Zealand is linked with Great Britain by strong ties of sentiment, trade and debt, and it would be inadvisable to make any permanent change in the basis of New Zealand currency without full discussion of the matter with the British authorities.

It was generally expected that the Government, which had hesitated for so long, would, in view of the report of the Economic Committee, finally come down in favour of a high exchange rate. It came to the opposite decision on March 11. In reply to a question in the House, Mr. Downie Stewart pointed out that, in any event, quite apart from the failure of interested parties in the Dominion to agree, it would be necessary to obtain the concurrence of London interests which had incurred obligations on the Dominion's behalf on the faith of the arrangements made in New Zealand to meet the overseas emergency.

In recent times (continued the Minister of Finance) many Governments have found it necessary to take control of the exchanges in much the same way as the New Zealand Government found it necessary to create the exchange pool owing to a sudden emergency arising in the London money market. The pool was created not for the purpose of keeping down the exchange rate, but as a precautionary measure to see that adequate funds could be purchased for government requirements, and that all exchange credits were conserved and used in the best interests of the Dominion of New Zealand. In a national emergency of this nature, national requirements must take precedence over private or sectional interests, and some measures of restriction on individual freedom must inevitably be accepted in the public welfare.

Conditions in the London money market are improving rapidly, and if the present favourable tendency continues the Government may in due course find it possible to get some relief from the stringent conditions which rendered necessary the formation of the exchange pool. In this event, a reconsideration of the present conditions imposed in New Zealand will be possible, and I can assure the hon. member that the regulations will not be maintained any longer than is necessary to ensure government requirements being met.

In conclusion, I may say that the Government does not propose to interfere with the rate of exchange, and in the meantime does not consider it advisable to make any alterations in the regulations for effecting a pooling of the exchange resources.

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This decision came as a great relief both to the nervous trader whose enterprise has been checked for two long months of suspense, and to the taxpayer who, though unable to answer the expert's academic arguments, knows that inflation is easier to start than to stop or to limit, and that this kind of appetite has been accustomed to "grow by what it feeds on." There is even some small comfort for the farmer in the Finance Minister's sanguine view of the London money market, and his assurance that the restrictions will not be retained any longer than the necessities of the Government require. Special congratulations are due to the Minister, who is himself an economist of high standing, though he has not learnt, as some of our economists have—apparently under Australian inspiration—to talk lightly of budget deficits, under such abnormal conditions, as not necessarily being a sign of unsound finance, and of the possibility of dealing with them by means of Treasury bills. A contrary decision might have compelled him, according to Mr. Park's estimate, to raise an extra £1,500,000 in the first year of a high exchange, and an extra £3,500,000 in the second.

III. THE OTTAWA CONFERENCE

BUT there is another capacity in which Mr. Downie Stewart has equally good cause to be pleased with the decision to which he has guided his colleagues. The Ottawa Conference is approaching, and it is improbable that the heavy responsibilities of his two senior colleagues, Mr. Forbes and Mr. Coates, will allow either of them to leave New Zealand. But Mr. Stewart holds the two portfolios, Finance and Customs, which are most intimately related to the work of an economic conference, and it is therefore likely that he will represent New Zealand. For so staunch an imperialist, it would have been a bitter blow if he had had to go to Ottawa, on behalf of a Dominion

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which has hitherto prided itself on its imperial spirit, to negotiate imperial preference with his hands tied by an exchange rate, representing an undiscriminating and irreducible addition of 25 per cent. to our tariff on all imports, British and foreign alike. Such an addition would have hit Great Britain, our best friend and customer, the hardest of all.

Even without the crushing handicap of a high exchange rate, New Zealand's position at Ottawa will not be an easy one. We all see that the substantial preference which Great Britain now offers under her new tariff calls for substantial reciprocity instead of a mere raising of duties against the foreigner, a step which costs nothing. When we were prosperous and Great Britain had no tariff favours to offer, nobody gave the matter a serious thought; but to-day, with every industry here depressed and our leaders anxious and distraught, it is almost impossible to overrate the importance of the offer which Great Britain has made. A time when everybody, willy-nilly, has sacrificed so much is a bad time to ask for more sacrifices. The problem is, however, not quite so simple as that. In this case, one particular class or industry will be asked to make a sacrifice for the benefit of another class or industry, and, unfortunately, this antagonism of interests will follow substantially the line of cleavage that divided town and country on the exchange issue.

So far, however, there cannot be said to have been any cleavage at all, for no leader or organisation of any kind has started an agitation or propounded a policy, and, on the principle that it is better to receive than to give, such spasmodic references as have been made to the matter welcome England's offer without, however, the faintest suggestion of the form, if any, that our own proposals in return should take. The only important ministerial reference to the subject was the Prime Minister's announcement on February 25 that a special committee of the Cabinet, consisting of himself, Mr. Coates, Mr. Downie

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Stewart and Mr. Masters, had been appointed to prepare for the Cabinet's approval a policy which could be put forward on behalf of New Zealand at Ottawa.

The Chambers of Commerce, the Manufacturers Association, the Farmers Union, the various control boards and many other bodies, as well as members of the public, will (he promised) be invited to make any representations or suggestions that may occur to them, and the fullest possible consideration will be given to every aspect of the problems to be solved.

It is obviously a wise course to consult the bodies representing the interests specially concerned in the most comprehensive manner, but as few, if any, of these interests have given any precise attention to the matter, a fairly definite lead will be needed if definite results are to be obtained. Publicly, at any rate, no such lead has yet been given by the Government.

IV. THE SPECIAL SESSION

THE first session of the twenty-fourth Parliament of New Zealand was opened by the Governor-General on February 23. In the ordinary course Parliament, which was elected in December, would not have met till the last week in June, but, as Lord Bledisloe pointed out in his speech from the throne, "the abnormal financial and economic position of the Dominion" had made it desirable to summon this special session. Like the National Government of Great Britain, our Coalition Government had asked the electors for a free hand and got it.

At the general election (said His Excellency) my Government, in inviting an expression of the country's confidence, appealed for unfettered authority in the existing emergency to adopt such measures for meeting it as circumstances might from time to time appear to justify.

It was known that a National Expenditure Commission and the Economic Committee were still helping to shape

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some of the most important of these measures, but all that the speech from the throne had to say on the subject was that the Mortgagors Relief Act required amendment, and that Bills would be introduced to improve the method of unemployment relief and to amend the system of industrial conciliation and arbitration.

The general attitude of the Government towards the system of industrial conciliation and arbitration had been announced by the Minister of Finance to the late Parliament in the Supplementary Financial Statement, to which reference has already been made.

The bearing (he said) of the operations of the Arbitration Court on the farmers' costs, unemployment and the industrial situation in general has received the careful consideration of the Government. It is considered that many conditions and restrictions now in operation in many of the Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference,* the chief feature of which is known as compulsory conciliation and voluntary arbitration.

Although the text of the Bill† had not been circulated, the Labour party blocked the motion for its introduction by a prolonged "stonewall" stand on February 26 and 27, which compelled the House to sit on Saturday, and to renew the closure resolution which had been tried last year and allowed to lapse. Unreasoning obstruction of this kind was bound to lessen the force of arguments against the Bill when it made its appearance, but when it did appear it was found to provide plenty of material for criticism.

When the measure was first brought before Parliament it contained a clause authorising the Minister to exempt

* See THE ROUND TABLE, No. 72, September 1928, pp. 887-900.

† The Industrial Conciliation and Arbitration Amendment Bill.

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classes of persons from the operation of the Act by Order-in-Council. It is true that certain industries, especially farming, have a reasonable claim to be exempt, but the relief should come from Parliament without the intervention of ministerial discretion, which might obviously destroy the whole system, and it is a matter for satisfaction that the clause was withdrawn when the Bill went into committee. Another provision which is regarded as too sweeping is that which permits either side to prevent an appeal to the Arbitration Court from a finding of the Conciliation Council. The second reading of the Bill was moved on March 10 by the Minister of Labour (Mr. A. Hamilton), in a speech which, in spite of persistent interruptions from Labour members, made a good impression. But more serious, from the Government point of view, than the inevitable hostility of Labour were the strong objections taken to some of the provisions of the Bill by several Government supporters, one of whom, Mr. J. Connelly, had told the electors that he would not stand for the abolition of the Arbitration Court or stand by and see it made an empty shell. When the second reading of the Bill was carried with the aid of the closure on March 15 by 41 votes to 29, the minority included five Government supporters, of whom two were ex-Ministers.

The most startling evidence up to date of the economies forced upon the Government by the closing of the loan market was the statement of Mr. Coates, the Minister of Public Works, on March 1.

Apart from the separate funds for the construction of main highways, the amount of borrowed money available for the Public Works Department in 1931-32 was five and a half million pounds. The first estimates of the department for the coming year were being framed, the Minister explained, on the assumption that £2,800,000 would be available, but the basis had been reduced by the closing of the loan market to £1,234,000. A reduction at a single

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stroke of £4,308,000, representing 75 per cent. of last year's expenditure, came rather like an avalanche, but there was no choice. "The country," said Mr. Coates, "must face the facts"—which Labour, not for the first time, showed itself unwilling to do.

It had long been a complaint against the Public Works Department that it was overstaffed, but Mr. Coates informed the House that in the first two months of the year no fewer than 340 officers had been dismissed, reducing the cost of supervision by £81,000, or about 20 per cent. If the 12,000 workers in the department's employ had been reduced by 75 per cent., like its capital expenditure, it would have meant 9,000 dismissals.

Rather than adopt the method of wholesale reduction by dispensing with so many (said Mr. Coates) it is felt that, in all the circumstances, and to prevent undue distress, the better course would be to employ as many men as possible, and in order that this policy may be followed it is proposed to turn the whole of the public works undertaking on to a purely relief labour basis until such time as conditions improve.

Thus Mr. Coates's two onerous responsibilities—public works and unemployment—may be said to have almost merged into one another. They might both be combined in a single relief works department until the loan market opens again.

The first report of the National Expenditure Commission was laid on the table of the House of Representatives on March 11, and, whatever else may be said about it, it must be admitted that it is a prompt, courageous and drastic piece of work. The Commission was appointed on January 27 to investigate the administration of the public service with a view to effecting economies, and it has now presented an interim report which recommends immediate economies amounting to £2,916,000. As the appropriations for the year came to £24,628,000, the economies recommended represent about 12 per cent. of that total. Some of

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the economies are to be increased in subsequent years, and the investigations are not yet complete.*

The broad grounds on which they arrived at the conclusion that severe retrenchment was the only alternative to default are stated by the Commission in the following passage :

It seems necessary (they say) to refer to the very serious decline in the national income and to the far-reaching effect of this reduction. The economic problems of New Zealand to-day are but a reflex of world-wide conditions, although in the case of New Zealand the effect is particularly severe, in that prices of primary products have fallen to a greater extent than prices of manufactured goods. The latest statistics available indicate that national production has fallen by approximately 30 per cent. as compared with the value in 1928-29, which may be regarded as the "peak year." In that year the value of production is given as £125,300,000 ; in 1929-30 a reduction of £7,000,000 occurred ; while for 1930-31 production fell to approximately £98,000,000, or a decrease of approximately £27,000,000. It is estimated that for 1931-32 a further fall of £8,000,000 will be disclosed, bringing the value down to approximately £90,000,000. In other words, the Dominion has to accommodate itself to a fall in a period of four years of £35,000,000 in the value of production.

Among the more important of the Commission's recommendations are the following :—A 10 per cent. cut in public service salaries and wages, which suffered a similar cut last April ; a reduction in interest and rent proportionate to the reductions in salaries and wages ; a reduction in the number of members of Parliament ; a reduction in the cost of pensions, excluding war pensions ; the abolition of the main highways revenue fund and capital account ; the abolition of education boards, the control of the existing system to be vested in a central advisory board, and other severe economies ; a suggested conversion loan, together with additional stamp duties, in order to reduce

* Speaking in the House of Representatives on April 29, Mr. Stewart said that national expenditure had been reduced by £5,940,000 in three years, and that a further reduction of £4,390,000 was in sight for the current year. Nevertheless, the year was expected to close with a deficit of £2,000,000.

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internal debt charges; and closer scrutiny of permanent appropriations by Parliament. The National Provident Fund should also, the Commission considered, be put on a self-supporting basis. Family allowances should be abolished, and widespread cuts made in general administration.

The recommendations in the list relating to education and pensions are, of course, highly controversial. Last year Mr. Forbes in his budget speech referred to the £3,355,000 spent on education in 1930-31 as excessive and warned the House that the time had come to economise. But the Commission's economies amount to £370,000—rather more than 10 per cent.—and many of them will be strongly resisted. The proposal to reduce pensions is also unpopular, but an expenditure of £3,000,000 on pensions out of a revenue of less than £25,000,000 could not be justified even if there were no slump. The Commission's figures show how rapid the growth of expenditure has been, though the change in the value of money robs the first item of its value for the purpose of comparison. The figures are as follows:

1914-15, £584,849; 1920-21 (which included war pensions), £3,039,233; 1926-27, £2,672,111; 1928-29, £2,866,584; 1930-31, £3,068,213; 1931-32, £3,220,260. Statistics (the Commission point out) show that over the last two or three years there has been a marked fall in the cost of living, and on this ground alone some reduction in the rate of all classes of pensions is justified.

... The alterations recommended should effect a saving of £599,925, and this will reduce the total expenditure on pensions for 1932-33 to approximately £2,700,000. From the evidence submitted it is clear that pension claims must increase, and that it will probably not be long before the total expenditure will again reach the huge sum of £3,000,000.

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